

-ACCOUNTANCY

Published by
The Society of Incorporated Accountants and Auditors
Incorporated Accountants' Hall
Victoria Embankment
London, W.C.2

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VOL. LV (Vol. 6 New Series)

March, 1944

Number 607

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PROFESSIONAL NOTES

"Salute the Soldier"

This year's major savings drive will be opened on March 25 with London's "Salute the Soldier" Week, which will inaugurate a series of such Weeks to be held throughout the country. The target figure has been fixed at no less a sum than £165 million, a further increase of £15 million compared with last year's goal of £150 million for "Wings for Victory" Week. The target for the original "War Weapons" Week, it may be recalled, was fixed at only £100 million, and that for "Warships Week" at £125 million. On each occasion the target figure has been comfortably exceeded. We commend to members of the profession the cogent letter, written on behalf of the principal accountancy bodies, which we publish on page 110. The following table shows the final results of the three previous drives for the country as a whole:

	Small Savings	Large Savings	Total	Percentage of Small Savings
War Weapons Weeks ..	£141m.	£328m.	£469m.	30.1
Warships Weeks ..	£141m.	£404m.	£545m.	25.9
Wings for Victory ..	£179m.	£436m.	£615m.	29.1

The Accounts of Holding Companies

On page 112 of this issue we publish the text of the latest recommendations of the Institute of Chartered Accountants on Accounting Principles. These recommendations are directed to an improvement by voluntary action in the accounts of holding companies. They will be welcomed by the profession as defining broadly what is regarded as the best practice in a sphere in which it is generally considered there is room for improvement in the general standard of information.

Company Law Amendment

In this connection we may refer to the summary on page 113 of the evidence submitted to the Company Law Amendment Committee by various witnesses who were examined on December 10 and 21, 1943. It will be noted that Mr. Hargreaves Parkinson stated that the present accounts of holding companies do not as a rule enable the financial Press to fulfil its function of criticism. On the extent to which these and other matters may be appropriately dealt with by statute there will be some difference of opinion. The Company Law Amendment Committee is continuing its deliberations, and we propose to sum-

marise further evidence as it is published by H.M. Stationery Office. A memorandum of evidence has been submitted to the Committee by the Society of Incorporated Accountants. The full text of this will appear in our columns in due course, as well as a report of the oral evidence which will be given on behalf of the Society.

Penny-a-Week

We have been asked to remind all our readers, whether employers or employees, of the continuing need of support to the Penny-a-Week Fund in aid of the Red Cross and St. John Organisation. We hope that groups for this purpose may be formed in the offices of firms and in undertakings where Incorporated Accountants are engaged, if this has not already been done. To existing groups, the chairman of the Fund, Lord Southwood, has acknowledged the gratifying response to his previous appeals, which has assisted in answering every call for help which has so far been made. But in view of the ever increasing demands, he asks for an increase in the weekly contribution. His request to the accountancy profession is contained in a letter to Mr. C. J. G. Palmour, President of the Institute of Chartered Accountants, a copy of which has been forwarded to us.

The Red Cross and St. John have brought relief to those who are in the prison camps of Germany, on the battlefields of Africa and Italy, and in the bombed cities of Britain, as well as to millions in Russia and China. Readers of ACCOUNTANCY will recall the tribute to the Red Cross contained in a letter published in our issue for November, 1942, from a member of the Society who was then interned in French North Africa: "The Red Cross are benefactors indeed. One has to experience the results of their efforts fully to appreciate their tremendous value to those people in dire need. With their help we relish such delicacies as tea, sugar, milk, cheese, canned beef, luncheon meat, butter, raisins, prunes, etc." The writer of that letter has happily been able to resume his service in the Royal Navy, but thousands are still in need of the help he describes, and as the war continues their numbers increase and the need becomes ever more urgent.

Overseas Telegraph Communication

The remarkable development of overseas telegraph communication has caused a service which at one time tended to be more or less restricted to official and business circles to become widely known and used by all sections of the public. This development has been largely due to the initiative of the board of Cable and Wireless, Ltd., under the chairmanship of Sir Edward Wilshaw, K.C.M.G. We congratulate Sir Edward upon his completion of 50 years' service in overseas telegraph communications, and upon the continuance of his vigorous and active work. The happy occasion was marked recently by the presentation to him of his portrait by Mr. Frank O. Salisbury. The presentation has afforded pleasure to a wide circle of Sir Edward's friends, and the members of the Council of the Society, his immediate neigh-

bours, have had the pleasure of communicating their felicitations to him.

Arthur E. Piggott Memorial Prize Fund

It is fitting that the unique services to the Society rendered by the late Arthur E. Piggott should be permanently commemorated. The late Mr. Piggott became a member of the Society in January, 1886, was Honorary Secretary of the Manchester District Society (the first District Society to be established) for over fifty years, and served on the Council for a similar period. The Committee of the Incorporated Accountants' Society of Manchester and District have taken steps to establish the Arthur E. Piggott Memorial Prize Fund, the income from which will be applied to students' prizes and other educational purposes. At least £500 will be required, and substantial support has already been received and promised. We commend the step taken by the Manchester members, and we are asked to say that contributions should be sent to Mr. J. D. Hamer, F.S.A.A., 14, Brown Street, Manchester, 2.

Employment Policy

In his recent House of Lords statement, Lord Woolton, Minister of Reconstruction, expressed confidence that "we can deal with the long-term problem of unemployment in this country." The Government, he said, are taking a long view, and are seeking to plan for the situation over three periods, recognising to the full the particular dangers of the immediate transitional period and of the reconstruction boom. During the transition period, he pointed out, we shall have to move industrially (or rather "occupationally," because they may remain with the same firm) something like 10 million people, and probably half of these in a comparatively small amount of time. In the subsequent period of prosperity and high production, the chief problem will be to prevent the development of an inflationary boom by means of controls over consumption and investment. But, Lord Woolton said, there will be a third period "when all this willing spending is over"; and this will be the time for the expansionist policy which he was convinced "is the right and proper policy for this country to pursue." Unfortunately, Lord Woolton did not greatly amplify the actual measures comprised within an expansionist policy. For example, he suggested that the danger period would be the time "for local authorities, public utility companies, and private undertakings to expend capital on plans which we shall encourage them to defer until this period." Projects which are merely postponed in order to prevent an inflationary boom, however, still represent "willing spending." The only actual stimulus to demand which Lord Woolton mentioned was that of public works. There was no discussion of the possibilities of stimulating private investment by more positive means than a general cheap money policy, such as Government guarantees to reduce risks, interest subsidies to promote large-scale expenditures such as railway electrification, or tax inducements to encourage the spending of undistributed profits.

Overseas Investment or Public Works ?

Nor was there even the briefest reference to the possibility of overseas investment. On the one hand, there are unlimited investment opportunities provided by the existence of huge undeveloped areas such as China and India, which in an orderly world would certainly make it unnecessary to look for artificial stimulants to employment such as Budget deficits. On the other hand, it must be remembered that this country has incurred heavy liabilities to many overseas countries, part of which at least will have to be repaid in the form of goods and services after the war. As a final point, it is satisfactory to note that Lord Woolton was careful not to imply that an expansionist policy alone can abolish unemployment. On the contrary, he discussed at some length the problems of "structural unemployment," i.e., the central problem of the special areas. During the war, he pointed out, a quite considerable number of Government factories have been built in those very areas. In many cases it will be possible to turn these over to peace production, and thus help to create some diversity of industry in these localities. In addition, Lord Woolton said, there will be a great opening for overseas manufacturers to come and build their industries in this country.

Public Secondary School Boys and Post-War Reconstruction

The retention of the School Certificate Examination is strongly urged by the Headmasters' Employment Committee of the Incorporated Association of Headmasters of Public Secondary Schools, which is administered in co-operation with the Ministry of Labour. The Committee has issued a memorandum on post-war reconstruction so far as it will affect the settlement or resettlement of secondary school boys in industry, commerce or the professions. The external examination for the School Certificate is stated to be a useful tonic to the work of the school, and it is pointed out that the introduction of new subjects and special syllabuses provides scope for the varying needs, capacities and aptitudes of the pupils. The schools play an active part in determining the scope and nature of the examination, and it is accepted as a preliminary qualification by professional bodies and employers, who realise the impossibility of equating the standards of internal certificates. All suitable boys should be encouraged to continue their studies in the sixth form, where the further training in leadership and development of personality are of the utmost value to the community. The Committee's experience over twenty years proves that employers are well satisfied with their recruits from secondary schools. It is recommended that premiums for arted pupils and apprentices be abolished, in order to ensure a more effective and selective use of the natural abilities and aptitudes of the youth of the country. Urgent consideration will be needed of the resettlement after demobilisation of youths who, prior to leaving school to join H.M. Forces, showed more than average ability. The Committee favour a

system of training grants for them ; but they consider it undesirable that facilities should be provided for advanced technical training to persons who have not reached a good standard of general education. Financial assistance should be given where necessary to men who have to return to arted status in professions such as accountancy, law, and architecture, at an age when they might normally expect to be qualified and earning a suitable income.

Utility Goods

In a recent report, it will be recalled, the Conservative sub-committee on industry suggested that the Government might help to iron out fluctuations in trade by buying standardised household goods for stock when trade is falling off. Much discussion has been caused by a recent article in *The Times* arguing a more general case for the retention of utility goods schemes after the war. Considerable economies in production and distribution, and thus greatly lowered prices, it is claimed, might result from this policy, while, in addition, the utility mark would provide a Government certificate of a certain standard in quality, in much the same way as the hall-mark for goods made of gold and silver. Obviously, the latter aspect, of providing a means of grading goods for quality, is far less controversial than would be the continuance of direct State intervention in actual manufacture. It is probable that the present utility schemes throw little light, one way or the other, on the merits of utility goods in general. On the one hand, the frequent complaints that utility goods are of shoddy quality can probably be attributed in the main to wartime shortages of materials, while, on the other hand, the undoubted popularity of utility furniture may owe as much to the shortage of furniture in general as to the quality of the utility article itself. After the war, freedom of consumers' choice must obviously come into its own again. This being given, the question largely becomes one of foresight. If a mass market exists for goods of simple design, it has yet to be proven that private enterprise is incapable of foreseeing and meeting such a demand.

The Prevention of Fraud (Investments) Act

No doubt some of the considerations which, last year, led the President of the Board of Trade, Mr. Hugh Dalton, to appoint the Company Law Amendment Committee, have prompted his recent announcement that the postponed clauses of the Prevention of Fraud (Investments) Act, 1939, are to be brought into operation. The Act prohibits dealing in securities except by members of a recognised Stock Exchange or recognised Association of dealers in securities or by persons licensed by the Board of Trade. The "appointed day" for the commencement of this provision has been postponed from time to time, but Mr. Dalton has now decided to fix April 15 as the date by which applications for licences must be submitted to his Department. Some further time must be allowed for consideration of these applications, but he aims at bringing the Act into full operation by the middle of July, 1944.

ACCOUNTANCY

*Formerly the Incorporated Accountants' Journal
Established 1899*

The Annual Subscription to ACCOUNTANCY is 12s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. 0d., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2

P.A.Y.E.

The fact that the above abbreviation is now generally recognised is proof of the interest that "pay as you earn" has aroused in all ranks of business. It was owing to popular demand, expressed through the elected representatives of the people in the House of Commons, that the Chancellor of the Exchequer introduced the Bill that became the Income Tax (Employments) Act, 1943, notwithstanding the previous year's White Paper which made out the official case against, and argued the impracticability of introducing such legislation. When that Bill was introduced, it was the official intention to limit it to those who may conveniently be called weekly wage earners, both manual and non-manual. Popular opinion again made itself felt, however, and the Act as passed embraced salary earners up to £600 a year, and the Chancellor promised a further Bill to extend the principle to all those taxed under Schedule E, except members of the Forces. This, the Income Tax (Offices and Employments) Bill, has now been introduced.

It seems that between one-and-a-half and two million more taxpayers will now be brought into the scheme and that out of a total of fourteen and a half million taxpayers, about thirteen million will, as from April 6 next, be paying tax on their current income as it is earned.

Despite the fact that this will mean that a large proportion will be paying more tax than if the old system (based on the previous year's income) had continued, and will to that extent be worse off, it cannot but be to the general advantage that incomes will be taxed, as it were, on the spot, with no time lag, no artificial measures of income, and in general no arrears to meet when incomes fall or cease altogether.

In view of the previous year's basis of assessment for 1943-44, followed by "actual" for 1944-45, the income of 1943-44 will not form the basis of any assessment in normal cases. It has therefore been necessary to include a safeguard in the Bill by providing for an additional assessment for 1943-44 (with no discharge of tax) where the income has been increased by a grant of additional remuneration since September 20, 1943 (the date of the announcement of the original Bill), or by a change in conditions of service after that date, unless the increase is due to ordinary promotion, the ordinary application of an incremental scale of emoluments, overtime paid for

at ordinary rates, or other similar increase of an ordinary character. It is hoped that disputes will be reduced to a minimum. In essence, subject to clarification, the clause is a much simpler protection of the Revenue against avoidance than appeared to be in the Chancellor's mind when discussing the issue in Parliament last Autumn, and will give the necessary power to prevent abuses of the change-over in basis of assessment.

In normal cases, those now brought into the scheme will obtain the benefit of discharge of seven-twelfths of the 1943-44 tax, though this will not be noticed until retirement or other cessation of the employment.

A desire to show good faith and the improvement in the war situation may have caused the scheme to be rushed, as it has been, in order to avoid the difficulties that would have been bound to arise on the cessation of hostilities, when tax based on big pay would still have been due for deduction after overtime and double rates for Sundays, etc., had ceased. Whatever the reason it would have been better had more time been allowed for setting the machinery in motion. It is evident that the department has been swamped with the work, inexperienced staffs having to be employed, and it is likely to be many months before the "teething troubles" are finished. It is whispered that the Stationery Office has had its own worries and delays in printing the mass of paper—the tax tables alone look like running to about 2,000 pages—and it is evident that Inspectors' offices have never had such rushes of callers as followed the issue of the coding notices. Moreover considerable strain has been placed upon the administration of industrial and commercial undertakings and their advisers.

From the professional point of view, we regret the clog in the ordinary run of taxation work which is increasing the delays in dealing with Schedule D. This is emphasised in the difference between the purely Schedule D districts, such as those in the City of London, where the normal work still runs smoothly, and the other districts that deal with all schedules, where it is difficult to get normal work attended to. We hope that an early attempt will be made to catch up the arrears.

Permanent Civil Servants feel they are meeting unfair discrimination in having no discharge of tax. In the case of temporary Civil Servants, however, there will be a cash refund at a future date to those who have had to meet overlapping tax payments and are deprived of the "tax holiday" to which they were looking forward.

So far no workable scheme has been seen for bringing Schedule D on to P.A.Y.E., though this is an avenue that requires exploration. It has been suggested that payment on "actual" income a year in arrear, similar to the sur-tax system, would help, but we look forward to someone evolving a much better idea. Possibly a provisional assessment, with subsequent adjustment, will be as near as one can get. We hope the profession will turn its mind to this serious problem.

Government Price Control

By C. V. BEST, Incorporated Accountant

The control of prices payable by the civilian population for its purchases, and by the Government for many of its requirements, has been affected by the Prices of Goods Act, 1939, which was subsequently amended by the Goods and Services (Price Control) Act, 1941. Under the powers given by these Acts many Statutory Rules and Orders have subsequently been issued by the Board of Trade governing prices in particular industries. The majority of food prices are controlled by the Ministries of Food and of Agriculture and Fisheries, while the Ministry of Supply fix raw material prices under thirty different controls covering practically the entire field, leaving the Ministry of Aircraft Production to be responsible for the Light Metals Control. These bodies adopting a variety of ways have succeeded in fixing prices for practically every commodity and service in relation to goods.

In times of war, when a large percentage of the country's productive capacity is employed for war purposes and restricted imports further reduce the goods available for civilian purchase, price control is essential to avoid inflation. At the same time, controlled prices retain goods within the purchasing capacity of the majority, and if some form of rationing control is also enforced such goods as are available are equitably distributed to the entire population. The experience gained in the war of 1914/18 has been fully borne in mind, so that the systems utilised during the present conflict have been much more satisfactory, and comparatively few complaints are now really justified.

Survey of Legal Provisions

The Prices of Goods Act, 1939, was passed on November 16, 1939, as soon as was practicable after the commencement of hostilities. In the preamble it is stated to be an Act to prevent prices of goods specified by the Board of Trade being raised above a "basic" price for those goods by more than an amount justified by increases in specified expenses. It may be noted that an increase in costs and prices was immediately anticipated and provision was, therefore, made to keep inflation within reasonable limits. The "basic" price was the market value ruling on August 21, 1939.

The Act permitted representative bodies of traders to apply to the Central Price Regulation Committee for the purpose of:—

- (a) Fixing basic prices,
- (b) Fixing permitted increases,
- (c) Fixing selling prices.

Otherwise traders are required to justify their prices, bearing in mind the increases in the expenses given in Schedule I of the Act. These expenses are cost of materials, labour and overhead expenses. The method of control is through a Central Price Regulation Committee, which considers points of policy and controls Price Regulation Committees operating in various parts of the country.

The 1939 Act failed to control the prices of goods for which there was no ordinary market price. The amending Act, the Goods and Services (Price Control) Act, 1941, brought such goods within its ambit, and controlled charges for services rendered in connection with goods, as well as the charges for hiring and processing.

The 1941 Act did not repeal the 1939 Act in its entirety, and the major portion is still on the statute book; but it enlarged the scope to a considerable extent. In particular, power was given to the Board of Trade to fix *maximum prices* and to direct that a price should be computed in such manner as was provided by an Order.

Methods of Control

The general scheme of price control may be allocated in the main under the following three types:—

- (a) Foods with fixed prices where it may or may not have been necessary for the Government to grant subsidies to maintain reasonably low prices.
- (b) Products in short supply where prices and profits are restricted:—
 - i. Orders issued by the Board of Trade.
 - ii. Ministry of Supply and Ministry of Aircraft Production raw material controls.
- (c) Prices paid by Government and Services Departments for war supplies controlled by contract conditions or by Statutory Orders.

The division of the scope of control under these three headings is not intended to convey the impression that the methods used for each are fundamentally different. Costing has come into its own; and the exercise of this science, inexact though it may be in certain respects, is more appreciated and is now generally considered of greater value by business men than was the case in the pre-war period.

Foods

The usual method adopted for foods is to fix a "reasonable price" after investigation, but in order to avoid inflation and to make the necessities of life available to all, the Government has in many cases subsidised the producer. Generally a maximum price is fixed for a given unit of the commodity, allowing an agreed margin per unit for profit.

Products in Short Supply

It will be appreciated that a very wide range of raw materials and goods are in short supply. Thus the methods of control are numerous, but again costing has been very fully utilised.

- (a) "*Cost Plus*" method with or without maximum prices

The Prices of Goods Act, 1939, in Schedule I gives the items of expense which may be permitted in ascertaining cost. This was amplified in 1941 by a memorandum issued by the Central Price Regulation Committee, and Statutory Rules and Orders have been subsequently issued giving detailed

instructions on price fixing and governing the prices of various commodities. Reference must be made to the appropriate Order should the occasion arise.

This method of price control has been adopted by the Board of Trade for utility products. Various Orders now include maximum or "ceiling" prices. In these cases the articles must be sold at their cost as ascertained plus the permitted profit, but these selling prices must not exceed the stated "ceiling" prices. In order to avoid "undue skimping" of materials to reduce costs and thus keep below the "ceiling" price at the expense of reducing the life of the article or for the purpose of conserving labour and materials, Orders have been issued governing manufacturing to a very fine degree.

(b) *Fixed Price Method*

The fixed price method only differs from the cost-plus method subject to a maximum price in that after discussions with the Trade Association and investigations into cost, a reasonable price is ascertained, and many Statutory Orders fix the maximum prices on this basis. Any saving in expenses as a result of super-efficiency of a concern is, therefore, reflected in the net profit resulting.

A further interesting extension is the fixed selling prices for the wholesaler and the retailer, giving them a reasonable margin to cover their expenses and profit. Admittedly in the cases where the manufacturer's price is being based on the cost-plus method with maximum figures, the wholesalers and retailers are given percentage additions for their expenses and profit, but again with "ceiling" prices.

(c) *Pre-War Prices plus Percentage Increase*

The method of allowing a percentage increase on pre-war prices is not so common as those already mentioned, being of practical use only for standard types of articles and for fixing prices for services in relation to goods. It is possible to obtain from a cross section of an industry details of its pre-war costs and to deduce from the current accounts the increase in costs which has taken place since the pre-war period.

Permitted Profits

In most cases profits are now controlled at the fixed percentage given in the price-fixing Order. This profit on turnover was originally fixed by reference to the capital usually employed in the particular industry and the relation of the annual cost of the turnover to this capital. The capital computations were prepared on lines somewhat similar to the excess profits tax computations.

Raw Materials Control

Raw materials for production are controlled by the Ministries of Supply and Aircraft Production for the purpose of maintaining an adequate supply for both civilian and war purposes and for supervising the distribution of available supplies. Prices are controlled as part of the price stabilisation policy and with the further obvious purpose of restricting producers' profits to reasonable figures.

The difficulties of fixing prices for an entire industry

are considerable, and when it is essential to maintain all concerns in production unusual methods may have to be used. Generally, costing of a cross-section of the industry is undertaken and a reasonable return is given on the average capital employed. The accuracy of the prices thus ascertained is checked from time to time by the resultant profits. Wide variations in costs obviously arise, due not necessarily to inefficiency but to unsuitability of plant for the work on which it is now engaged and the lack of experience of both management and operatives in handling present production. Profits are in many instances regulated by a pooling of a portion of surplus profits over a given return, when the monies thus collected are used in subsidising the high-costing concerns where a reasonable return could not otherwise be made.

Government Contracts

Government contracts were dealt with in the article on "Settling Prices for War Stores" in the January issue of ACCOUNTANCY, to which reference should be made. For more detailed information the Fourteenth Report for the Session 1942/43 of the Select Committee on National Expenditure should be studied.

Excess Profits Tax

It has been contended that the labour spent on accurately ascertaining costs, particularly for small concerns, is not fully justified, for with excess profits tax at 100 per cent. and income tax and sur tax at the present high levels there can be little incentive to industry to desire excessive profits. This argument has not been accepted by the Treasury or the Board of Trade, it being pointed out that there is a 20 per cent. rebate on excess profits tax payable in certain conditions after the war, and further that price control is primarily imposed to maintain a reasonable price level.

Conclusion

The necessary systems of fixing prices are essentially very numerous and elaborate, controlling as they do practically the entire output of industry, but it is generally accepted that they have proved effective in maintaining reasonable prices and thus restricting inflation.

In these days, when so many have their respective views of the desirable world in the post-war period and various methods of planning are propounded, these notes would be incomplete without some reference to the future; but the subject is of sufficient importance to require much fuller treatment than is possible in this article. It must suffice to suggest that while a shortage of goods persists, some control of prices is desirable, but that it should be removed as soon as possible. Increased supplies of raw materials with a return of normal competitive trading will tend to reduce prices sufficiently to make further control unnecessary. Whether the matter should be allowed to take this course or whether restrictions should be maintained is an interesting problem for a debate.

— Capital Structure of a Business

Contributed through the Incorporated Accountants' Research Committee

I—THE FORM OF CAPITAL STRUCTURE

By R. E. YEABSLEY, C.B.E., Chartered and Incorporated Accountant

The problem of the provision of capital for enterprise is twofold. Firstly, the amount must be sufficient for the financial requirements of the business, and secondly, the manner in which the funds are provided must be appropriate to the circumstances.

In determining the form of the capital structure regard should be paid to the following factors:

1. The nature of the business.
2. The degree of fluctuation in the profits.
3. The nature of the assets employed.
4. The period for which the capital is required.
5. The probable devolution or marketability of the shares.
6. The probable course of money rates.

The Nature of the Business

The nature of the business may well have a material bearing on the form of capitalisation. The following examples may be considered: (a) Property-owning companies; (b) investment trusts; (c) mines; (d) multiple shops; (e) timber importers; (f) banks; (g) distillers; (h) building contractors.

The extent to which the business is speculative, the periods for which stocks are to be held, the seasonal nature and requirements of the business, all affect the amount of the capital required in a permanent or semi-permanent form, and, to some extent, the justification for the issue of any preference capital.

Most businesses may expect the provision of certain "free" capital afforded by credit given by suppliers on the purchase of goods, etc. This may be a sum which is reasonably constant throughout the year or credit provided to finance seasonal purchases. Temporary finance should be obtained by short-term borrowing which may be from suppliers on usual credit terms, on bills, or facilities from bankers. It would clearly be inappropriate for the whole of such finance to be provided by long-term borrowing on debentures or by the issue of share capital. The amount of short-term finance that can prudently be relied upon must largely depend on the nature of the business. Thus it would not be the same for all the different types of businesses mentioned above.

Assuming that the amount of long-term capital has been determined, and that in considering the form thereof regard has been had to the nature of the business and the assets required, there still remain other important factors which have a bearing on the precise form of the capital structure.

The Degree of Fluctuation in the Profits

It will be clear that in determining the amount of the issue of preference shares, regard must be had to the probability that the fixed dividend thereon will in normal conditions be covered by profits of the year. Subject to the allocations to reserves, at least the

fluctuating part of annual profits should be a matter for the ordinary or equity shareholders.

The Nature of the Assets Employed

Reference to the types of businesses previously referred to indicates that the nature of the assets has a distinct bearing on the problem under review. For example, whereas a substantial issue of debentures may well be appropriate in the case of a property-holding company or an investment trust, it would usually be quite inappropriate to issue other than share capital in the case of banks and ordinary shares in the case of mines.

The Period for which the Capital is required

For the purchase of leasehold properties it is likely that such capital as is provided by debentures will be redeemable by the end of a period not shorter than the terms of the leases. The provision of capital for seasonal requirements has already been referred to.

Redeemable preference shares would normally be issued in those cases where there was a probability of obtaining the finance at the redemption date on cheaper terms, or where the equity holders were prepared to forgo a part of the annual earnings to provide the necessary funds for redemption in due course, in order ultimately to secure for themselves the interest in the business formerly held by the preference shareholders.

The Probable Devolution or Marketability of the Shares

In the case of private companies constituting family businesses, it may well be that the "proprietor" would on his death desire that the business be passed on to his sons working in the business, but that a reasonable income should also be available for his daughters. In such cases it may be appropriate, subject to the other matters previously referred to, that there should be both preference and ordinary share capital, the former for the daughters, the latter for the sons.

Where it is desired to provide for share capital to be readily marketable, and this may well be to the advantage of the company in the event of new capital being required, it may be desirable to have the capital divided into small units—say 5s. shares for ordinary capital where the market quotation is several times the nominal value. In many cases ordinary shares are quoted on the Stock Exchange, while control of the company is retained by the original proprietors in the form of deferred shares.

The company will consider as a matter of policy whether it requires its shares concentrated in the hands of a few holders, say of a few personal backers of a business dependent on the personality of the managing director, or whether they should be spread as widely as possible as in the case of a multiple

retailer, whose shareholders would all be potential customers. The size of the capital units might be governed by such considerations.

The Probable Course of Money Rates

The terms of the issue of debentures and preference capital should have regard to the probable course of money rates. Should there be a likelihood that money will in due course be cheaper, it may be well to provide that the company has the option to redeem the debentures, or that preference shares be redeemable. There exist to-day some preference shares issued

shortly after the last war bearing extraordinarily high rates of dividend, and in some cases this operates most harshly on the ordinary shareholder. The problem of the rights of the preference shareholder should, wherever possible, be tackled when the capital is being raised rather than by schemes of reorganisation some years after when circumstances have changed.

To summarise, it is important not only that the amount of capital available be adequate, but also that the form of capital structure be appropriate in all the circumstances.

II—MEASURING CAPITAL REQUIREMENTS

By E. C. BURRELL, Incorporated Accountant

Before the advent of limited companies, the trade and industry of the country was mainly conducted by small or medium-sized concerns under the active direction of their proprietors. But the trend of the last hundred years has been towards larger and larger units. Ownership and management have become separated, and some holding companies control large groups covering a wide range of activities throughout the world. A further development has been the public utility type of undertaking, such as the London Passenger Transport Board.

A full and comprehensive understanding of what constitutes a sound capital structure has thus become a matter of national interest. Certain guiding principles are applicable to the capital structure of all undertakings, whatever their size, subject perhaps to some modifications to meet special circumstances. The capital requirements of an undertaking may be analysed as follows: (1.) Capital required to acquire and maintain Fixed Assets. (2.) Working Capital. (3.) Reserve Capital. (4.) Short Term Capital.

Capital Required for Fixed Assets

It is obvious that when an undertaking is established or expanded, sufficient permanent capital should be available to cover the cost of all the fixed assets required. It is an injudicious policy to acquire these on credit. If sufficient profits do not accrue, after covering taxation liabilities, the business is seriously handicapped from its inception and may be forced into unnecessary bankruptcy. Any appreciable additions to the original fixed assets should be financed either by the introduction of further permanent capital, or from undistributed accrued profits. In the latter event the amount "drawn off" from accrued profits should be regarded thenceforth as part of the permanent capital and clearly segregated, either by the issue of bonus shares or by transfer to a capital reserve. The former would probably be the safer method if the expenditure is substantial. It is important that a register of the main individual items comprising the fixed assets should be kept, so that the cost of each can be written off during the period of its useful life. Accumulated depreciation, less utilisations for replacements, should be clearly indicated in the annual balance sheet. If this fund is utilised in the business, it should be kept readily convertible into liquid form.

Working Capital

Working capital is the amount required to finance current assets in so far as these are not financed by either normal trade credit or short term capital. Requirements for this purpose should be most carefully assessed at the time of establishing or expanding a business, as normal working capital should be financed by permanent capital. Under-assessment would seriously handicap the business, while, on the other hand, if the amount required is over-assessed there will be a certain amount of redundant capital, which will have the effect of dividend distributions being unnecessarily low. Furthermore, too much money in the bank might be a deterrent to managerial efficiency. There should, therefore, be sufficient (not more nor less) permanent capital available to cover normal working capital requirements; and any apparently permanent expansion in these requirements should be met either by the introduction of fresh capital or from undistributed profits.

Reserve Capital

It is not usually possible to assess with a high degree of accuracy the fixed capital and working capital requirements of a new undertaking, especially the latter. It is therefore suggested that after the amounts required have been computed, an addition of, say, 10 per cent. should be made in calculating the permanent capital to be sought. This can be described as reserve capital. Apart from acting as a buffer against under-assessment of requirements, such a reserve would be useful to finance small additions to fixed assets or normal working capital.

Short-Term Capital

During the war period, many firms have had to carry a much larger amount of stock and work-in-progress than normal, and the financing thereof has generally been effected by means of short-term borrowing. Even in peace-time a firm may have to carry a large contract or buy a large parcel of stock, the financing of which by means of permanent capital would be wasteful. Unfortunately, short-term capital is often used for purposes for which permanent capital should be employed. An example of this was seen in the unhealthy boom conditions following the last war, when many firms followed a policy of expansion financed by means of bank loans. When the

subsequent slump ensued the banks called in their loans, with the result that many of these firms were forced out of business. It is, therefore, a first principle of the elements of a sound capital structure that short-term capital should be used for short-term purposes and for those only.

Stress has been laid on the principles to be followed in calculating the capital requirements of a new or

expanding business; but it is clear that the same principles apply to a contracting business, in which case redundant permanent capital should be liquefied and returned to the owners. Equilibrium at all stages should be adhered to as closely as circumstances permit, and the maintenance of such equilibrium should be the fundamental underlying principle throughout the life of an undertaking.

The Principle of Comparing Like with Like for E.P.T. Purposes

By J. E. TALBOT, A.C.A.

The principle of comparing like with like is to a considerable extent inherent in the excess profits tax code and can be recognised as the foundation of a large number of the statutory provisions. To take one of many instances, under section 29 of the Finance Act, 1941, interest on borrowed money is not to be deducted in computing profits of chargeable accounting periods falling after March 31, 1940, and equally it is not to be deducted in computing standard profits in relation thereto.

Another instance of the application of the principle is found in section 39 of the Finance Act, 1941, which opens by providing in subsection (1) that in applying "income tax principles" to the computation of E.P.T. profits, regard shall be had to the income tax law in force with respect to the year of assessment in which the chargeable accounting period ends, subject to exceptions in regard to statutory provisions which apply specific income tax rules to the computation of E.P.T. profits for specified chargeable accounting periods. Subsection (2) applies the "like with like" principle by requiring that in computing standard profits in relation to any chargeable accounting period, the same principles shall be applied as those which (whether by virtue of subsection (1) or otherwise) fall to be applied in ascertaining the profits arising in that chargeable accounting period.

As an example of the practical application of section 39, it may be recalled that the basis of deductions for depreciation of mills and factories was altered by section 15 of the Finance Act, 1937, with effect from April 6, 1937. This situation, which might otherwise have involved that the deduction would be computed on the old basis in the standard periods 1935 or 1936 and on the new basis in the chargeable accounting periods, is now dealt with by section 39 under which the new basis would have to be applied throughout. The difference might well be important where the mill or factory concerned was the subject of substantial assessments for Schedule "A" and rating purposes.

Statutory Exceptions to Principle

Until recently there appears to have been a growing tendency for the Inland Revenue to apply ever more widely the principle of comparing like with like, and for the taxpayer to invoke it whenever it seemed likely to benefit him. It is important to note, however, that while effect is given to the principle by certain

statutory provisions, yet it cannot apply in the face of a section which clearly excludes its operation. This fact was strongly emphasized by the recent High Court decision in *Inland Revenue v. Ash Brothers & Heaton, Ltd.* (1943) 2 All E.R. 417.

The facts in that case were that in both the standard period and the chargeable accounting period a certain director of the appellant company was required to devote substantially the whole of his time to the service of the company in a managerial capacity. In the standard period he was the beneficial owner of more than 5 per cent. of the ordinary share capital, so that his remuneration was disallowed, for the company was at all material times controlled by its directors. On April 4, 1939, he had sold all of his ordinary shares, so that during the chargeable accounting period (one year to June 30, 1940) he did not own beneficially "more than five per cent. of the ordinary share capital of the company." Accordingly the company claimed that during the chargeable accounting period he was "a full time working director," so that his remuneration, which still stood at the same level, should be allowed for that period.

The Solicitor-General, on behalf of the Crown, contended that since the excess profits tax is charged on the amount by which the profits of a chargeable accounting period exceed the standard profits, this director's remuneration ought to be treated in the same way in both the standard period and the chargeable accounting period; it ought to be deducted in both periods or not deducted in either. He argued that this was necessary in order that like might be compared with like.

Macnaghten J. held that the provisions of paragraph 10 (1) of the Seventh Schedule, governing the treatment of directors' remuneration, are too plain to admit of the Crown's arguments. "Those provisions plainly require that in computing profits for the standard period no deduction is to be made in respect of Mr. Fletcher's remuneration. After Mr. Fletcher had sold all his shares the provisions of that paragraph ceased to have any application to his remuneration, and therefore in accordance with income tax principles in computing the profits of the company in the chargeable accounting period his remuneration must be deducted."

The result might have been different if the director had disposed of his shares with a view to bringing

about this result, but it will be seen that the sale of shares had taken place nearly six months before the introduction of the original legislation bringing the excess profits tax into force.

Cases Not Covered by Statutes

It is therefore clear that the principle of comparing like with like, while deriving statutory authority in regard to certain circumstances, ceases to apply when it comes into conflict with statutory provisions. What then is the position in cases where the Finance Acts are silent, i.e., where the principle is neither specifically authorised nor specifically negated? A conclusive answer to this question must await a further decision of the courts or (possibly) fresh legislation, but meanwhile it is submitted that there are grounds for regarding the principle as operative in such cases. It will be noted that in the *Ash Brothers & Heaton* case the Court found nothing repugnant in the principle apart from its conflict with paragraph 10 (1) of the Seventh Schedule, and it appears that apart from this the Revenue's reliance on the principle might have succeeded. In practice the principle has been widely applied in such circumstances, including cases where, following a reduction in a wear and tear rate between standard and chargeable accounting periods, the Revenue have agreed to extend the lower rate to the standard period, so long as there had been no change in the circumstances affecting the use of the plant such as to justify the difference in rates.

Finally there remain those cases where legislation requires such treatment as may be just (e.g., section 38 (4) of the Finance Act 1940) or where a discretion is conferred on the Inland Revenue (e.g., section 33 (5) of the same Act). Here, justice or the exercise of the discretion will usually point directly to the need for invoking the "like with like" principle.

An interesting illustration is the practice which it is understood the Inland Revenue follow in the exercise of their discretion under section 33 (5), *supra*, concerning the treatment of directors' remuneration in a case where a company, though director-controlled in the standard period, has ceased to be so controlled before the commencement of the chargeable accounting period. A distinction is drawn between cases where the cessation resulted from a deliberate attempt to reduce E.P.T. liability and cases where it occurred without intent, e.g., through the death of a director with a substantial holding of ordinary shares. In neither case is any alteration made in the disallowance of directors' remuneration in the standard period, but in the former instance, the Revenue, in the exercise of their discretion, allow the deduction of directors' remuneration in the chargeable accounting period only to such an extent as will compensate for the reduction from 10 per cent. to 8 per cent. in the statutory percentage on increase of capital. The E.P.T. liabilities then remain the same as if the deliberate cessation of control had not occurred. However, in the innocent case the practice is to allow the full remuneration payable to directors in the chargeable accounting period; and it would appear that the "like with like" principle is here discarded on the footing that there has been a material change

in circumstances between standard and chargeable periods, and that in any event the apparent advantage gained by the taxpayer is offset to a greater or less extent by the reduction in the statutory percentage allowable on capital increases.

"Salute the Soldier" Week

We have been asked to publish the following letter, which has been addressed to practising accountants in the City and County of London by Mr. C. J. G. Palmour on behalf of a committee representative of the professional bodies mentioned:—

NATIONAL SAVINGS MOVEMENT
"SALUTE THE SOLDIER" WEEK,
MARCH 25 TO APRIL 1, 1944

The City and County of London has again been asked to take the opening week for a new Savings Campaign which will be held throughout the country from March to June next and The Rt. Hon. The Lord Mayor has once again asked me, in co-operation with the other accountancy bodies, to support the effort to raise the sum of £165,000,000 or even more during the week March 25 to April 1.

London's lead in the "Wings for Victory" week in March, 1943, was conspicuously successful and the target of £150,000,000 was exceeded by no less than £12,000,000. The Lord Mayor is very anxious that this appeal shall achieve an even more satisfactory result.

I have consulted with the President of the Incorporated Society (Mr. Witty), the Chairman of the Association of Scottish Chartered Accountants in London (Mr. Adamson) and the President of the Association of Certified and Corporate Accountants (Mr. Parkes) and it is with their ready concurrence that I again invite the wholehearted support of practising members of the profession.

I need not emphasise the merits of the cause. As the Lord Mayor has pointed out, we are now at the zenith of our war effort, and although there are many encouraging signs, it is most important at this juncture to maintain production and to make generous provision of finance.

I should like to suggest that, as on previous occasions, accountants may be able to render material assistance by:—

- (1) Stimulating Savings Groups in their offices to make a special effort for the week;
- (2) using their influence wherever possible to make the week a success;
- (3) investing as generously as possible.

Yours faithfully,

(Signed) CHAS. J. G. PALMOUR,

President of the Institute of Chartered Accountants in England and Wales.

February, 1944.

"Capital Employed"—Another Viewpoint

[CONTRIBUTED]

The writer who contributed the article headed "Capital Employed and Government Price Fixing" in the January issue ignores, in my opinion, several important factors which have a bearing on the difficult question involved.

The gist of the article appears to be that it is quite right that the profit margins should be allocated in proportion to capital employed, because the degree of economy and efficiency exercised in the business—which admittedly is a large factor in determining whether profits should be large or small—is the result of the work of the management and not of the shareholders, who contribute nothing to the efficiency of the business, but who simply receive their dividend. It is contested, therefore, that it is the management who should be rewarded in proportion to the efficiency exhibited, and not the shareholders.

There are three main reasons why this contention is both inequitable and inexpedient in the interests of industry as a whole. As regards the first, the success of a business may depend to a considerable extent upon the policy agreed upon by the board of directors, who may be large shareholders but who, apart from dividends, may receive only fixed directors' fees. As regards the actual management of a business, success, measured in terms of profit, may be rewarded in strict proportion to the amount of profit obtained, or may not. In some cases those mainly responsible for carrying on a business successfully are paid a fixed salary, which, even if it is on the generous side, does not vary with the profit earned. In other cases the remuneration varies with the net retainable profit after taxation has been met. In still other cases the remuneration of such people is based upon the total trading profits before charging either E.P.T. or income tax. Only in the last case could it possibly be argued that the efficiency factor was covered in the remuneration of management before a fair profit margin was fixed.

A still greater objection to fixing profit margins in relation to capital employed is involved in the question "What is capital employed"? According to the writer of the article, it is the tangible assets of the business at the pre-inflation values, less the current liabilities. I do not think that any body of professional accountants, or any practical business man, will contest the statement that, in many cases, the value of a business is the discounted value of its expected earning power. This may often (e.g. where valuable goodwill has been built up or the business is run with ability above the average) be considerably greater than the balance sheet value of the assets, based normally on their cost; and it can only be very roughly assessed by the market value of the shares if such shares are publicly owned.

Land, buildings, plant, and amount locked up in stock and debts, are only a means to an end—the creation of a business which can provide employment and by paying good dividends attract fresh capital as required. Unless the business succeeds in this, its tangible assets will have little more than a break-up value, and its power to provide employment will first diminish and then probably cease altogether.

One has only to look at the financial columns of the press to see that the realisable value of shares in trading concerns bears little or no relation to the value of the tangible assets of those concerns. If the principle advocated in the article in question was adopted not

only for war contracts but for industry generally as controlled by Government Departments in the post-war period, what would be the position of shareholders who had paid, say, £3 or £4 for £1 shares because dividends of 20 per cent. to 25 per cent. had been paid? Obviously, they would not only lose two-thirds or three-quarters of their income, but also two-thirds or three-quarters of their capital investment. In this connection, it must be remembered that, in many cases, the original owners of such successful businesses have sold their shares and that the majority of present-day shareholders have acquired their holdings at high prices.

If any other argument be needed to expose the inequity of assessing capital employed as tangible assets less current liabilities, one has only to remember that for probate purposes it is the market value of shares which forms the basis of estate duty, that is to say that for the purpose of collecting excess profits tax and income tax the Revenue authorities assert that the capital value consists of the net tangible assets, while for the purpose of collecting probate duty they assert that the capital value is the amount that the share in a business will realise in cash—a palpable inconsistency and injustice.

Perhaps the most important objection to adopting the method defended in the article lies in the fact that the effect of acting upon such a principle would go a long way to dry up the source of supply of capital to industry so long as the present voluntary capital system continues.

No-one possessing any degree of business acumen would invest his savings in industrial undertakings if he realised that, while he might lose his savings in whole or in part if the concern in which he had invested experienced bad trading conditions, profits, on the other hand, however successful the business might prove, would always be restricted to what might be considered a reasonable return on the original investment as represented by tangible assets at their balance sheet value.

This question is one of the utmost importance, because it involves the vexed question of the profit motive in industry, which has been criticised by many people, including high Church dignitaries. So far as the actual management of businesses is concerned, theoretically, the profit motive may not be absolutely essential. In many cases, managing directors and leading officials, if reasonably remunerated, could be relied upon to do their best, even if their remuneration was not directly in proportion to the profits earned. Nevertheless, human nature being what it is, there is little doubt that, if the constant striving after a greater measure of efficiency could bring no increase in profits beyond a fixed ceiling, then there would be a gradual slackening in the efforts to achieve good results, and the ability to compete in world markets in the post-war period would be seriously impaired. Profit is the life-blood of industry, and, if industry becomes anæmic, then it will become lethargic and will gradually waste away.

Even if it could be assumed that, so far as management was concerned, the profit motive could be eliminated, either by trusting the management to do its best without that motive, or, alternatively, by making the remuneration of all contributing to success dependent upon the measure of success, it would still remain a fact that, so long as the present voluntary capital system survives, capital cannot be attracted to industry without the profit motive.

Accounting Principles

The Council of the Institute of Chartered Accountants makes the following further recommendation to its members on certain aspects of the accounts of companies engaged in industrial and commercial enterprises. Whilst it is recognised that the form in which accounts are submitted to shareholders is (subject to compliance with the Companies Act) a matter within the discretion of directors, it is hoped that this recommendation will be helpful to members in advising, in appropriate cases, as to what is regarded as the best practice.

VII. Disclosure of the Financial Position and Results of Subsidiary Companies in the Accounts of Holding Companies

Where a company holds a direct or indirect controlling interest in another company or companies (referred to in this memorandum as 'subsidiary undertakings'), a true appreciation of the financial position and the trend of results of the group as a whole can be made only if the accounts of the holding company as a separate legal entity take into account or are supplemented by information as to the financial position and results of the subsidiary undertakings.

The following are three methods of disclosing this supplemental information. Each has its own value and limitations. The first and second methods are suitable only in special cases.

Method (1): To submit copies of the accounts of each of the subsidiary undertakings.

This method is suitable only where it is desired to focus attention on the financial position and earnings of each component of the group. It is impracticable where the companies are numerous and, in all but the simplest cases, the shareholders of the holding company could not obtain a true view of the group as a whole without considerable explanation of inter-company relations.

Method (2): To submit statements of the consolidated assets and liabilities and of the aggregate earnings of the subsidiary undertakings as distinct from those of the holding company.

This method is of value where it is desired to show the underlying assets which represent the investment of the holding company in its subsidiary undertakings, or particular groups of them, and also the earnings attributable thereto.

Note: As regards methods (1) and (2), if the holding company trades extensively with or through its subsidiary undertakings, the disclosed earnings of the subsidiary undertakings may not by themselves be a true criterion of the real value of the holding company's interests in such undertakings; in such circumstances their value cannot be assessed separately from the value of the group undertaking as a whole.

Method (3): To submit a Consolidated Balance Sheet and a Consolidated Profit and Loss Account of the holding company and of its subsidiary undertakings treated as one group.

This method is the most suitable for general application.

It must, however, be remembered that a Consolidated Balance Sheet is not a record of the assets and liabilities of a legal entity and that the liabilities of each company in the group are payable only out of its own assets and not out of the combined assets of the group. Also, there may be special cases where it may be impracticable or inappropriate to include the

figures of a particular subsidiary undertaking in the consolidation. This applies especially in the case of subsidiary undertakings operating overseas where, apart from the temporary difficulty of enemy occupation, there may be restrictions on exchange.

A Consolidated Profit and Loss Account does not suffer to the same extent from these limitations and, subject to any necessary explanations, the aggregate results of the group as a whole can be stated. Such disclosure is important even if for any reason the publication of a complete Consolidated Balance Sheet is impracticable or inappropriate.

Recommendation:

It is therefore recommended that in the case of every holding company:

1. With the published accounts, statements should be submitted in the form of a Consolidated Balance Sheet and Consolidated Profit and Loss Account or in such other form as will enable the shareholders to obtain a clear view of the financial position and earnings of the group as a whole.

2. Every consolidated statement should indicate:

- (a) The nature and measure of control adopted as a basis for the inclusion of subsidiary undertakings.
- (b) the reasons for the non-inclusion of any subsidiary undertakings which would normally be included on the basis adopted for the group.
- (c) the procedure adopted in cases where the accounts of subsidiary undertakings are not made up to the same date as the accounts of the holding company.
- (d) in the case of subsidiary companies operating overseas, if relatively important, the basis taken for the conversion of foreign currencies as affecting assets, liabilities and earnings.

3. The Consolidated Balance Sheet should exclude inter-company items and should show the combined resources of the group and its liabilities and assets, aggregated under suitable headings. It should distinguish between capital reserves not normally regarded as available for distribution and revenue reserves, including those which would be available for distribution as dividend by the holding company if brought into its accounts. It should also show the interests of outside shareholders in the capital and reserves of the subsidiary undertakings and, under a separate heading, the interests of the group in subsidiary undertakings which have not been consolidated.

4. The Consolidated Profit and Loss Account, or other information given as to the earnings of the group, should disclose the aggregate results of the group for the period covered by the accounts, after eliminating the effect of inter-company transactions. It should be in such a form that these aggregate results may readily be reconciled with those shown by the profit and loss account of the holding company, in which should be stated separately the aggregate amount included in respect of subsidiary undertakings whose accounts have not been consolidated.

The following, *inter alia*, should be separately stated:

- (a) The aggregate results of any subsidiary undertakings the balance sheets of which have not been included in the consolidation.
- (b) The portion of the aggregate net results attri-

butable to outside shareholders' interests in the subsidiary undertakings.

- (c) The portion of the consolidated net results attributable to the holding company's interest which remains in the accounts of consolidated subsidiary undertakings or the amount by which the dividends from such subsidiary undertakings exceed the holding company's share of their earnings for the period.

5. Profits earned and losses incurred by subsidiary undertakings prior to the acquisition by the holding company of the shares to which they are attributable should be viewed as being of a capital nature from the standpoint of the holding company. Such pre-acquisition profits (whether received in dividend or not) should therefore not be brought into account as being available for distribution in dividend by the holding company.

Company Law Amendment Committee

Summary of Minutes of Evidence—III

In our December and February issues we presented a summary of the most important statements made in evidence to the Company Law Amendment Committee on its first six sitting days. The written and oral evidence summarised below is published in full in the Minutes of Evidence for the seventh and eighth days, December 10 and 21, 1943 (H.M. Stationery Office, price 2s. each.)

Mr. Hargreaves Parkinson

On the seventh sitting day, the Committee examined Mr. Hargreaves Parkinson, Editor of the *Financial News*. In his memorandum Mr. Parkinson points out that company law from the outset has conceived a company as a democracy of shareholders who elect a "cabinet" of directors and pass judgment on their stewardship in a general assembly at annual intervals. Most of the problems of the present day, in his view, derive fundamentally from the degeneration of the shareholder from a controlling proprietor to a mere dividend recipient. His memorandum consequently makes a number of specific suggestions designed to meet the difficulty that the machinery laid down in the Companies Act no longer appears altogether suitable, and secondly, to ensure that adequate data are made available for the informed exercise of shareholders' control. These suggestions include the establishment of a new office under the Crown, that of a Public Shareholder, who would hold one share in every company; and the establishment of a Shareholders' Standing Advisory Committee and of company commissioners to maintain regular contact with the board of directors on behalf of shareholders. Mr. Parkinson also suggests that the procedure of voting by proxy should be discontinued. A shareholder would express his decision by filling out a voting paper, sent to him with a notice of the meeting, the procedure at which would be purely formal.

Under examination, Mr. Parkinson stressed that one of the chief functions of the Public Shareholder would be to act as a focal point for opposition. It was not proposed that he should have powers greater than those of the ordinary shareholder in order that it could not be said that the State was obtaining greater control of company administration than it now has. He agreed that it would be helpful if in misfeasance proceedings the Court could award costs against the company provided they found that there was a sufficient *prima facie* case to justify the shareholders in instituting proceedings. On the subject of accounts, he suggested that some body should be authorised to specify a series of model accounts, adapted to the requirements of different trades. With regard to disclosure, he would not draw any distinction between trading of commercial companies on the one hand, and banking and other financial concerns on the other. To overcome the difficulty regarding foreign subsidiaries, he suggested that they should be required to establish an office here, like independent foreign companies. Consolidated accounts should make it possible for the shareholders to say whether individual subsidiaries were on the upgrade or on the downgrade.

In a series of questions, Sir Edward Hodgson made the point that the Public Shareholder would have to examine on the average over 320 documents a week from companies, so that the office might require a sizeable department. With regard to nominees, Mr. Parkinson agreed it might be useful to provide for declaration of beneficial ownership for all shareholdings exceeding a given percentage of the total capital, say, 4, 5, or 7½ per cent. Questioned about the form of auditor's certificate, which states that the balance sheet exhibits a "true and correct view" of the state of the company's affairs according to the explanations given and as shown by the books of the company, Mr. Parkinson replied that in his view "were it not for the qualification contained in the second part of it, the first part would be a lie." Asked whether the present accounts enable the financial press to perform their functions of criticism, Mr. Parkinson said that where you have holding companies they do not, except in some cases where the accounts are exceptionally informative. Asked in greater detail how the suggested model accounts would differentiate between industries, Mr. Parkinson instanced the grouping of fixed assets; for example, in the case of a steel company he would want coal interests shown separately. The definition would be by functions of the business.

Mr. Charles Nordon

The second witness to be examined was Mr. Charles Nordon, whose chief recommendations in his memorandum were the abolition of underwriting and the standardisation of prospectuses. If it were decided not to abolish underwriting altogether, Mr. Nordon proposes a register or association of licensed underwriters, though sub-underwriting should, in his view, be prohibited in any case. Among the particulars required in the proposed standard form of prospectus would be the dates of and parties to every contract entered into by the company, the vendors or the promoter in relation to the company within the three preceding years. For the present memorandum of association there would be substituted a form to be called "incorporation particulars," which would specify, among other things, the names and addresses of the intended managing directors, managers, executive officers and secretary, indicating in each case the names of any other companies or businesses in which they were employed.

In his examination the Chairman brought out the difficulty of defining the terms "manager" or "executive officer," instancing the case of a company like Marks & Spencer, who have branches in every town, and have managers of each branch. Mr. Nordon ex-

plained that by executive officers he meant those primarily responsible to the board. The chairman then put a series of questions designed to bring out in what respects the particulars which Mr. Nordon proposed should be included in prospectuses would differ in their effect from those at present required. It was further suggested that one effect of the abolition of underwriting might be to make companies more dependent on bank finance. Mr. Nordon expressed the view that bank control is not harmful; banks will, for example, "nurse" the company if it is honestly managed. The possession of substantial resources would be the main test for inclusion in Mr. Nordon's proposed register of underwriters. Further questions brought out the point that if sub-underwriting were abolished, it would mean adding a vast number "to the list of material contracts in an already over-loaded prospectus."

The Association of Investment Trusts

On its eighth sitting day the Committee heard representatives of the Association of Investment Trusts. The Association had submitted a memorandum giving its opinion that, generally speaking, the Companies Act of 1929 had worked satisfactorily. "Much has already been done," it declared, "and much more which cannot be enforced by legislation will, we are satisfied, be done as time goes on through the influence of public opinion and the action of bodies like the Stock Exchange Committee and the professional bodies."

In reply to the chairman's question whether some responsibility ought not to rest on the bankers, solicitors and auditors, whose names were printed in large type on the outside of a prospectus, Mr. H. G. Brown said: "If the banker's name is printed in big type as authorised to receive subscriptions, or whatever it may be, on behalf of so-and-so and so-and-so, and it is splashed about, I think they deserve all they get in the way of responsibility; but if they are limited to their proper function—you must have applications made to a bank, and the cheques paid into a bank—of receiving applications as bankers, then I see no reason why they should accept responsibility."

The Association submitted that the main function of a debenture trustee was to act as a nominee or depositary in whose name the mortgages and charges securing the debentures can be created to be held for the benefit of the actual holders of these debentures, and that he should more properly be called a "custodian." Mr. Brown agreed, in answer to questions, that if a trustee is to be regarded purely as a custodian, he might well be held grossly overpaid, and that the ordinary individual investor certainly does have the idea that the trustee is some sort of a watch-dog. Citing the case of investment trust companies, Mr. J. Ivan Spens said that unless there was a default, he frankly did not see what a trustee could do; he, personally, for instance, would not agree to giving the trustees a list of the investments during the year, because changing the investments was one of the directors' functions. Taking up Mr. Brown's insistence on the danger that accounts might be made to give information to competitors, Sir Edward Hodgson asked whether the disadvantage would not cancel out if the requirement were imposed all round. Mr. Brown replied: "It means the really efficient organisation will suffer for the benefit of the inefficient. The information you get from the inefficient is probably not worth having." On the question of inner reserves of industrial companies, the following passage occurred:

Mr. Russell Kettle: You feel the only provisions which should not be disclosed are those which are substantially estimated to be required for a particular purpose?

Mr. Spens: Yes, that is my personal view.

Mr. Brown: I do not think that is the view of the Association. Members of the Association I have spoken to are in favour of allowing companies to have hidden reserves, putting it quite baldly.

Mr. Spens: I am in favour of hidden reserves, up to a point.

Questioned about the Association's suggestion that the position of the auditors of a company might be strengthened by making it more difficult for a board of directors to get rid of auditors who made a stand for what they consider right, Mr. Brown said: "If he (the auditor) feels it is really a matter which the shareholders ought to know, I see no reason why he should not say so, unless the shareholders, after having the matter squarely put to them, say that they do not want the information: he can demand a meeting of shareholders to decide it." To this Mr. Kettle observed: "Would it not be far better for the statutory requirements to be brought into line with what is considered modern development rather than to place the onus on an auditor?"

Accepting Houses Committee

Mr. Granville Tyser gave evidence on behalf of the Accepting Houses Committee. A memorandum put in by this body pointed out that many of the regulations of the Stock Exchange duplicate and even extend the provisions of the Companies Act. A company wishing to make a public issue was therefore faced with two codes on purely legal points. "We very much doubt," the memorandum went on, "whether it is right for the Stock Exchange Committee to 'legislate' in advance of the Companies Act on matters which go far beyond mere procedure." In examination, Mr. Tyser agreed that the Stock Exchange might make quite good regulations, and that, while these might be of value as Stock Exchange regulations, they might be too drastic as laws. He thought it would be useful to require that, where the prospectus stated that application for a quotation or for leave to deal had been applied for, in the event of its being refused the company should be obliged to return the money to the applicants.

The Chairman raised the point whether it was right that the shareholder should be left in ignorance whether a profit was a genuine trading profit or non-recurring.

Mr. Tyser replied that as a shareholder he was all in favour of getting as much information as he could, but as a director of companies, he often found it inconvenient that certain things have to be disclosed. It was not always in the interest of the shareholders.

Among the regulations made by the Stock Exchange, Mr. Tyser took special objection to the two-way proxy. Asked if this objection would be removed by a three-way proxy, the third line giving discretion to a person whom the shareholder might select as his proxy, Mr. Tyser replied: "A little, a very little." He admitted that the present system might have worked in the direction of putting the control of the company in the hands of the directors, but added that that was the best place it could be. On further examination, he agreed, without accepting the Stock Exchange solution, that changes in the present system might be necessary, and said that he would be glad to consider any change to wake up shareholders as to their rights. On the question of nominee holdings, Mr. Tyser was asked if he saw any objection in principle to the Board of Trade being given power to order an enquiry into the membership of any particular company, either at their own motion or at the instance of shareholders. He replied: "In the case of, say, Lever Bros., I am sure that Mr. Heyworth would object very much if one per cent. of the shareholders of Lever Bros. could cause an enquiry to be made, which might easily cost £50,000."

TAXATION**Pay As You Earn****• Extension to the Whole of Schedule E**

The Income Tax (Offices and Employments) Bill, published last month, implements the promise of the Chancellor of the Exchequer to extend P.A.Y.E. to all emoluments chargeable under Schedule E, other than the pay of the Armed Forces. It will be remembered that the Income Tax (Employments) Act, 1943, applies only to what may conveniently be described as weekly wages and to salaries not exceeding £600 per annum.

The following is a summary of the Bill:—

- (1) Annuities paid out of approved superannuation funds (see Section 32 (2), Finance Act, 1921) are transferred from Case VI, Schedule D, to Schedule E. "Tax-free" annuities will still be regarded as within the provisions of Sections 25 and 26, Finance Act, 1941, notwithstanding their transfer to Schedule E for P.A.Y.E.
- (2) Tax is deductible at the standard rate in appropriate cases, e.g., where allowances have already been fully given in the codings on other employments.
- (3) Tax is deductible under P.A.Y.E. from any and every payment made after April 5, 1944, irrespective of the period in which the income in question has been earned. Payments in arrear, e.g., commission, will require subsequent adjustment by the Inspector of Taxes; the employer is not to be burdened with duties of determining assessability.
- (4) Discharge of tax is extended to all arrangements for tax deduction which involve an overlap with the deductions under P.A.Y.E.
- (5) As the Forces are not brought into P.A.Y.E., but continue to be assessed on the preceding year basis, they are given the right to have the assessment in any year reduced to "actual."
- (6) A taxpayer in the Forces in the early part of 1944-45 is not to lose any discharge of tax in respect of previous civil employment which he would have enjoyed if he had remained in civil employment.
- (7) A person in the service of the Crown at April 6, 1944, is to have discharged tax in respect of a former office or employment which fell due for payment after he entered the service of the Crown and remains unpaid on April 6, 1944.
- (8) Where emoluments are assessed under Schedule D, there will be no discharge of tax, e.g., where a professional man holds an office or employment in the course of his profession and the income is included in his professional receipts.
- (9) Avoidance of tax made possible by the introduction of P.A.Y.E. is to be prevented. Where 1943-44 would never form the basis of assessment owing to the "previous year" system of assessment, an increase by a grant of additional remuneration after September 20, 1943, or a change in the conditions of service after that date, is to be added to the 1943-44 assessment but will not rank for discharge. Ordinary increases of pay due to promotion, increment, overtime or similar causes, i.e., in the ordinary course of employment, are not to form the basis of such an addition to the assessment. Manual wage earners, being assessed on "actual," will not be affected.

A more detailed discussion of the clauses had better

await the passing of the Act, as certain concessions have been promised.

Calculating Machine Methods

The official tax tables, when complete, will be a formidable volume. As the weeks go by, they will increase in arithmetical progression, so that in the 30th week there will be 30 times as many figures as in the first week, and in the 52nd week, 52 times as many. Moreover, each page will have 90 lines of densely packed figures. As the weeks go on, therefore, it is likely that the time needed for making up the pay cards will increase.

The makers and users of machine methods have therefore been exploring the possibility of simplifying the tables to quicken manipulation. Two of these methods have come to our notice. In the first case, The British Tabulating Machine Co., Ltd., have produced a ready reckoner table (one-sixtieth of the size of the official tables) dealing with the variables (the allowances) so as to establish a figure basically common to all taxpayers of whatever code. Two standing files of master cards can then be produced, one for the code allowances and the other for the ready reckoner. Automatic gang-punching is then practicable, allowing the production of a "tax advice" slip for each employee and the usual payroll. The first operation can be done in the "slack" period of the week. The Revenue have no objection to the use of such tables provided there is no departure from the full cumulative principle, or deductions of tax do not differ by more than a trivial amount (1s. or 2s.) from the tax shown in the official tables. Even used manually these modified tables have advantages.

In the second case, the tables produced give the exact results of the official tables, so that they can be used in all cases. London Computator, Ltd., have produced tax tables, specially for use with calculating machines, which will avoid any necessity for referring at all to the official tax tables. All tax can be ascertained by a simple machine operation based on figures set up on only two sheets of card (i.e., 4 pages, each about half the official size) for each week (instead of from the collection of volumes of increasing bulk constituting the official tables, which will reach about 75 pages for the 52nd week alone). The tables do not affect the bookkeeping or entry on the tax deduction cards, but experiment and demonstration to selected large employers of labour has shown that, owing to the reduction in time required, as compared with having to refer to the bulky official tables, the saving on the total extra work thrown on the employer amounts to from 45 per cent. to 70 per cent., according to the system in use.

These special tables are based on the simple facts that tax at 6s. 6d. in the £ less earned income allowance, gives a multiplication factor of 0.2925 (i.e., 5/10.2 in the £), and at 10s. in the £ less earned income allowance gives 0.45 (9s. in the £). The cumulative wages in the appropriate code are multiplied by the factor set at the top of the column and from the result is deducted a subtraction factor printed opposite the code number in the table; this amount representing the allowances covered by the code and (in the case of the multiplication factor of 0.45) the reduced rate relief. The result agrees exactly with the official tables. A special multiplication factor of 0.75 is necessary in codes 8-14 to cover the cases where income first swims into liability from exemption, in order to bring in the retrospective liability with marginal relief.

Illustration

Code 39, tax week No. 3, wages between £14 10s. and £24 10s., multiplication factor 0.2925, subtraction factor —4.125. These are easily picked up, as the multiplication factor is at the top of the column, and the lay-out of the rest is as follows:—

39	14.10	—4.125
	24.10	

The calculation proceeds:—

Accumulated wages (say) ... £23 18 4

Corrected to nearest 5s. below ... £23 15 0

23.75 × .2925 = 6.9468.

Deduct 4.125

2.8218

∴ Accumulated tax (always to nearest

1s. below), is ... £2 16 0

Deduct two previous weeks' tax (say) £2 19 0

Refund £0 3 0

Coding Notices

Children over 16 have not been included in the allowances in the original notices, in order that the claimant shall be compelled to confirm by a claim to that effect that the child is eligible for the relief, i.e. is still at school, etc., articulated, apprenticed, and so on. Expense allowances have, of course, had to be estimated except in those cases of agreed fixed allowances.

Arrears of Tax

It appears that arrears of tax are not being considered in the coding for 1944-45, but will be carried forward to be dealt with in 1945-46. This seems to be the only prac-

ticable measure, even if it may give rise to misunderstanding in 1945-46.

Modified Schemes

It is now learned that the agreement to adopt the modified scheme mentioned in our last issue may be reached by industries, thus saving the individual employer some trouble. It will still be necessary for each employer to notify the local inspector of taxes that he is adopting the scheme, and if the majority of his employees then oppose it he will have to drop it.

A better alternative, which may be adopted with the consent of the employees and the Inspector of Taxes, is to estimate the first week's wages and apply P.A.Y.E. to the estimate. In the second week, the cumulative wages will be the actual of the first week plus estimate for the second, and so on; there always being one estimated week. The estimate can be adjusted as necessary and will give results very nearly accurate, though enabling the machinery of preparation of wages to function throughout the week and avoiding the pay-day rush.

Good Friday

Difficulties were foreseen in the first week owing to Good Friday falling on April 7. Some businesses which normally pay on Thursday or Friday are having to pay for that week on Wednesday, April 5. This date would normally be outside the "P.A.Y.E." scheme, but Mr. S. O. Chambers, Commissioner of the Board of Inland Revenue, explained at a recent meeting of members of the London Chamber of Commerce that the Board of Inland Revenue will regard the week's payments and deductions as having been made on the normal weekly pay-day, even if for convenience they are actually made early in the week.

Casual Employees Leaving

The problem that arises in trades such as the building industry, where an employee on a small but distant site leaves in the middle of the week, is another that is exercising many minds. Readers who have problems of this nature may like to share their solutions with others through these columns.

Taxation Notes

E.P.T.—Directors' Remuneration, etc.

Much has been said regarding the interpretation of the phrase "directors' remuneration" as used in Rule 10 of Part I of the Seventh Schedule to the Finance (No. 2) Act, 1939, as amended by Section 33 (5), Finance Act, 1940. It appears to be the practice of the Special Commissioners (on appeal) to regard as directors' remuneration all sums received by directors for their services, whether as directors or otherwise, including managers regarded as such by the definition in Rule 13 of the Fourth Schedule to the Finance Act, 1937 (applied to E.P.T. by Section 22, Finance (No. 2) Act, 1939). Whether any remuneration paid to a director in respect of any other office can be excluded is doubtful, though it has been said that decisions have been given in the taxpayers' favour in certain cases. (We are not here concerned with concessions.) We should welcome our readers' experiences in any such appeals, and we should welcome statutory clarification of the matter.

Turning to Section 32 of the Finance Act, 1940, which empowers the Commissioners of Inland Revenue to disallow expenses in excess of the amount which they consider reasonable and necessary, having regard to the requirements of the trade or business, we find that the

term used is different; the actual words being: "in the case of directors' fees or other payments for services, to the actual services rendered by the person concerned." Again, in Section 34 of the Finance Act, 1941, which provides for recovery of the E.P.T. charged as a result of such disallowance, we find the words, "If . . . any expenses for directors' fees or other payments for services are disallowed . . . recover from the persons to whom the fees or payments were payable. . . ."

The Revenue interpret this as if it meant, "Any payments for services of directors or of other persons," but the difference in wording between Rule 10 and Section 32 is striking: "Directors' remuneration" on the one hand and "directors' fees or other payments for services" on the other. It might be argued that in the second phrase, the word "directors'" qualifies the whole phrase, and that the remuneration of other persons cannot be challenged under the Section. This interpretation would not be illogical, as the question of what is reasonable remuneration of employees is one for employers to decide, and in any case where there was a suspicion of a "wangle" for E.P.T., it would be a matter for the appeal commissioners to consider whether the remuneration was wholly and exclusively expended for the purposes of the trade (compare *Copeman v. Flood and Sons*

(1940), T.R. 491). Section 35, Finance Act, 1941, cannot be said to assist in interpreting a section of the 1940 Act, though Section 35 would now give the commissioners power to challenge increases in remuneration as "transactions" to avoid E.P.T. If "directors" does qualify the whole phrase, it might be to taxpayers' disadvantage, as a disallowance under any section other than Section 32 would not give a right of recovery under Section 34 of 1941.

There still remains the difference between "remuneration" and "fees or other payments for services" to consider. Is there a possibility that one term is more embracing than the other? It is true that the first is in connection with payments *prima facie* disallowable and the second with payments *prima facie* allowable, but that does not seem to explain the difference. First thoughts suggest that it was not intended that "directors" should qualify the whole phrase, and the reference to other payments for services is intended to embrace something that might not be included in "directors' remuneration," i.e., Section 32 of 1940 might be an argument in limiting the interpretation of Rule 10.

On the other hand the word "fees" may be intended to cover cases where no services are rendered! Perhaps some of our readers with a legal turn of mind would like to express their views.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

Income Tax—Corporation formed to protect interests of holders of public securities, especially foreign and colonial securities issued in the United Kingdom—Whether a charity.

In *Corporation of Foreign Bondholders v. C.I.R.* (K.B.D., October 15, 1943, T.R. 343) it was claimed that the Corporation's purpose was beneficial to the community in that for economic and political reasons it was to the interest of the whole community that the obligations of foreign debtors should be observed. The case was claimed to be analogous to that of *C.I.R. v. The Yorkshire Agricultural Society* (1928, 1 K.B. 611, 13 T.C. 58); but Macnaghten, J., in approving the decision of the Special Commissioners that the protection of the interests of foreign bondholders was not a charitable object, pointed out that in the case mentioned the primary object was the advancement of agriculture.

The claim was not lacking in boldness.

Income Tax—Trade expense—Land development company—Acquisition of estate for building development—Contract with builders for erection of houses—On sale of house, site with house conveyed to purchaser subject to chief rent of £5—Company no other business—Company guarantees advances to builders—Loss on guarantee—Whether admissible as deduction under Rules of Cases I and II of Schedule D, Rule 3 (a), (f).

In *Homelands (Handforth), Ltd., v. Margerison* (K.B.D., October 20, 1943, T.R. 353), the General Commissioners had found that a sum of £3,105 paid under a guarantee (1) was not money wholly and exclusively laid out or expended for the purposes of the company's trade and (2) was a capital expense. Macnaghten, J., affirmed their decision upon the first and found it unnecessary to decide upon the second point.

Cases of this nature depend upon their particular facts; and, here, the judgment by itself is insufficiently detailed to enable comment to be made.

Appeals

At this time of year, it is wise to review all cases where appeals or claims for relief may be necessary (e.g., for diminution of earned income, Section 34 (losses), etc.), and only one year is allowed in which to appeal, just as it is necessary in cases where the time limit is 6 years. The preoccupation of the Revenue with "pay-as-you-earn" has made for somewhat of a lull in negotiations with tax offices outside the City of London, and many cases that would normally have been settled are in abeyance. While this might be a factor to put forward in support of a late appeal, it is advisable to avoid having to ask for favours and to make the appeals in time. Diminution claims, in particular, must be watched, as there are so many instances where, with marginal relief, the surtax gain is considerable, though more income tax is payable owing to the previous year's surtax adjustment being made in the income tax computation.

Indian Income Tax Refunds

The time limit for refund claims has now been extended to four years from the end of the assessment year, but this extended time limit does not apply to claims in respect of tax paid prior to April 1, 1939.

Trade—Deduction—Payment to outgoing director of private company—Dispute as to ownership of connection brought into company by outgoing director under agreement—Payment made in settlement—Whether income or capital payment—Income Tax Act, 1918, Cases I and II of Schedule D, Rule 3 (f).

In *Deverell, Gibson and Hoare, Ltd. v. Rees* (K.B.D., November 5, 1943, T.R. 389), the issue arose in consequence of a dispute between the directors of a private company carrying on a printer's business. By an agreement in 1930, P became entitled to acquire a one-third interest in the company's capital upon terms which reflected the then prosperity of the business. He was also to be made a director at an agreed salary and was to "bring the whole of his printing connection into the business of the company." In addition he guaranteed that for seven years the business so brought in should not be less than £5,000 per annum. In January, 1941, following disagreements with Mr. Hoare, his fellow-director, he resigned and in his letter of resignation said that unless the company wanted to take over his connection he would make other arrangements. This threat caused Mr. Hoare to consult a member of the Chancery Bar who advised that P. was not entitled to do anything to deprive the company of the value of his connection or to take any steps to deal with it. Having obtained this advice, Mr. Hoare resolved to compromise if possible, and P. agreed to this and drafted a minute whereby "It was agreed that the company purchase P.'s assets, and the sum agreed upon was £450 plus the cancellation of the debt of £150 now appearing as a debt on the balance sheet against him." The Special Commissioners, whilst accepting the evidence of Mr. Hoare that his motives in signing the minute were the fear that P. might in some way do injury to the business if he left under a sense of grievance, and a desire to maintain good relations, held that these motives could not alter the "substance of the transaction" to be inferred from the terms of the minute and decided in favour of the Crown.

Macnaghten, J., in affirming their decision, pointed out that it did not say what the "substance" was; but he accepted the statement of the Solicitor-General that the only effective thing that the agreement did was to put P. under an obligation not to set up business as a printer in competition with the company.

The decision, it is understood, is one which is regarded by the Revenue as of general importance in relation to the question of expenditure in defence of existing trade interests. Apart from this, it has a particular interest. The appellant did not at any time claim that P. was not entitled to set up as a printer in opposition to the company, or, if he preferred, to enter the service of a rival concern. All that he claimed was that P. should not solicit or approach in any way those customers of the company constituting what remained of the connection, which under the 1930 agreement he had brought into the company for valuable consideration. The restriction claimed was specific and not general; and the opinion may be hazarded that the person most surprised by the judgment would be P. himself.

Income tax—Film production—Service agreement under which producer was to receive large salary, percentage of profits from pictures, and important screen credit (advertising)—Two pictures produced—Cancellation of agreement on terms whereby, inter alia, producer was to receive 60 per cent. of all receipts from the two pictures in excess of estimated cost of their production—Whether annual payments or instalments of capital sum—Income Tax Act, 1918, Rule 21.

Asher v. London Film Productions, Ltd. (C.A., December 8, 1943, T.R. 395), was noted in our issue of September, 1943. In the Court of Appeal the judgment of Atkinson, J., holding that the payments were income and not capital, was unanimously affirmed. The new arguments put forward that the liability was either under Case II of Schedule D as arising from a profession or vocation, or under Schedule E as arising from an employment, were rejected by the Court, which held that they were within Case III of Schedule D and therefore within Rule 21. A last contention put forward that they were within Case VI automatically failed in view of this finding. The Master of the Rolls said that the decision of Atkinson, J., was correct but did not cover the ground. Leave to appeal to the Lords was given.

Income Tax—Mortgage of a reversion—Under deeds mortgagee given option to capitalise interest in arrear 21 days—No interest paid after 1906—Death of life tenant in 1938—Death of mortgagee in 1933—In 1935 and 1938 trustees of mortgagee capitalise all interest covered by option—Computation of total amount due to mortgagee based on "net interest"—Whether interest assessable under Rule 21 of General Rules for year in which mortgagee's claim discharged.

C.I.R. v. Oswald (Cosier's Settlement Trustee) (K.B.D., October 25, 1943, T.R. 363), will, it is to be hoped, elucidate the judgment in *C.I.R. v. Lawrence Graham & Co.* (1937, 2 K.B. 179, 21 T.C. 158). There, the Court of Appeal held that where the mortgage of a reversion provided for the capitalisation of net interest, the interest, on capitalisation, was converted into principal money and, at the final settlement, was not assessable as interest under Rule 21. Here, the covenant only gave the mortgagee an option to capitalise unpaid interest; but Macnaghten, J., held that the distinction made no difference. The other distinction was that whilst in *Lawrence Graham* the covenant was for the capitalisation of "net interest," here it was for "interest," but the trustee's claim for £8,301 was made up by taking "net interest"

at each rest. In those circumstances, the judge held that the Special Commissioners were right in saying that the case could not be distinguished from *Lawrence Graham*.

The case is down for appeal; and, if the judgment is affirmed, the Revenue will, no doubt, seek to take it to the Lords. Not only is the *Lawrence Graham* decision impossible, administratively, but it is apparently at variance with *In re Jauncey* (1926, Ch. 471). There, Russell, J., held that where interest upon the mortgage of a reversion was capitalised it was so not because it was in fact paid but because it was in fact not paid, and in *Paton v. C.I.R.* ((1938) A.C. 341, 21 T.C. 626), Lord Atkin in the House of Lords emphatically endorsed this finding. In *Cross v. London and Provincial Trust, Ltd.* (1938, 1 K.B. 792, 21 T.C. 705), Lord Greene, who was a member of the Court of Appeal which decided *Lawrence Graham*, explained that decision as arising from the covenant being one for capitalisation of "net interest." But both of these cases were decided before the Lords' judgments in *Paton*; and, if payment is a question of fact, it is difficult to see how it can depend upon the form of a covenant. The judgment under review, by regarding a net computation as equivalent to a net covenant, has confused the position still further.

Income Tax—N.D.C.—U.K. company assessed Case I to include untaxed dividends—Dividends from American company not trading in U.K.—American company in receipt of large taxed dividends from U.K. companies—Whether dividends received from American company includible in full for Case I without *Gilbertson v. Fergusson* adjustment—Whether allowance due for N.D.C. on ground that said dividends included income received "directly or indirectly" from body corporate subject to N.D.C.—F.A., 1937, Schedule IV, para. 7.

In *Selection Trust, Ltd., v. C.I.R.* (K.B.D., Nov. 1, 1943, T.R. 371), there were two issues. Upon the income tax point, the Special Commissioners had held that the *Gilbertson v. Fergusson* principle did not apply; and Macnaghten, J., in view of *Barnes v. Hely-Hutchinson* (1940, A.C. 81, 22 T.C. 655), affirmed their decision.

For N.D.C., the company was successful, Macnaghten, J., reversing the Special Commissioners' decision and holding that the word "indirectly" must have been inserted only to meet such a case. He rejected the Crown's argument that it was intended to cover income from nominee holdings. This decision, unless reversed, would seem to be fraught with trouble for the Revenue.

Excess Profits Tax—Capital computation—Intercompany debt—Company's standard profit based on 1935 and 1937—To end of 1936 company subsidiary of another company and large debt owed to latter—Debt repaid January, 1937, when company ceased to be subsidiary—Whether, by Section 17 (1) of Finance (No. 2) Act, 1939, debt owed to the other company could not be treated as capital.

In *C.I.R. v. Trinidad Petroleum Development Co., Ltd.* (K.B.D., November 3, 1943, T.R. 383), the capital of the respondent company was, down to the end of 1936, £100,000 in £10 shares, all of which were owned by British Controlled Oilfields, Ltd. In December, 1936, the capital was increased to £1,000,000 (in £1 shares) and, as the result of a public issue, a large debt due to the principal company was discharged by £200,000 in cash and the issue of 400,000 shares fully paid. The City Commissioners had held that Section 17 (1) only applied to companies interconnected after April 1, 1939, and, Macnaghten, J., basing his judgment upon a consideration of the whole section, affirmed it "though not without doubt." The case is going further.

FINANCE**The Month in the City****Railway Dividends**

The principal Stock Exchange event of the past month has been the preliminary announcement of the railways' results for 1943. Within the limits of the rental agreement, these have been more satisfactory than was generally expected. Few people anticipated that there would be any increase in dividend payments, and there was very little of the market activity which usually precedes the announcements. In the event, however, three out of the five companies have raised the distributions on their marginal stocks, whereas the L.M.S., which was thought the most likely company to make an increase, has maintained its payment at last year's level. The profit figures for this company do, in fact, show a more ample margin of earnings over distribution than is the case elsewhere, and in general the procedure seems to have been to divide earnings more closely. L.N.E.R., for instance, raised its dividend on the second preference issue in spite of a decline in the amount earned, while the increase in the L.P.T.B. "C" stock payment is explained as being due to a special credit. In the case of the Southern Railway, the increase from 1½ per cent. to 2 per cent. in the deferred dividend was a particularly welcome surprise after last year's disappointment, when the dividend was merely maintained. Earnings, too, were better than for many years past, and the higher dividend payment only involved a trifling draft on the carry-forward.

A year ago a table was given here showing the yields offered by the "marginal" railway stocks at the prices ruling just after the last dividend announcement. It may be of interest to compare the figures for 1943 with those of 1942.

	Year	Dividend	Price	Yield
				£ s. d.
Southern Deferred	1942	1½	23½	7 16 6
	1943	2	25½	8 5 0
G.W.R. Ordinary	1942	4½	60½	7 11 3
	1943	4½	61	7 10 6
L.M.S. Ordinary	1942	2½	29½ xd	8 11 6
	1943	2½	31 xd	8 1 3
L.N.E.R. 2nd	1942	2½	32	8 8 3
Pref.	1943	2½	33½	8 6 6
L.P.T.B. "C"	1942	3	57½	5 6 0
	1943	3½	67½	4 17 9

In every case prices are higher than they were a year ago, while the yield is lower; even where dividends have been increased, on every stock except Southern deferred. In this instance the price adjustment following the increased dividend has not yet been sufficient to restore the stock to its normal place in the structure of railway yields. The general level of these yields indicates that the investor is still inclined to rate highly the post-war economic and political risks.

Conversion Loan Repayment

The announcement that the repayment of Conversion 5 per cent. loan on May 1 next would not involve the making of any further conversion offer caused little surprise in the City. It has been known for a long time that the ground was being well prepared by official purchases of the stock. Out of the £318 million outstanding, it is believed that the public departments now hold something like £200 to £250 million. In the circumstances, therefore, the operation will largely be one of internal bookkeeping. On receipt of the redemption monies, the Government Departments will immediately re-invest in some other form of Government

paper. At the same time, the amount remaining in the hands of the public is by no means inconsiderable, and holders have been asked to re-invest in the "tap" loans. No doubt a large proportion of the proceeds will be so treated, but the Stock Exchange is probably right in anticipating that there will also be a substantial re-investment demand for existing securities. The prospect has already provided a stimulus for the gilt-edged market, as well as further afield. There has been some speculation as to who holds the balance of the loan remaining outside the Government Departments, and it seems clear at least that none of it can be held in the money market, which has had previous experience of holding loans to maturity and then being told where to re-invest the proceeds. From the point of view of the private investor, the loan should have been sold some time ago, but ignorance of these matters is far more prevalent than is generally realised, and it can hardly be doubted that the "unofficial" portion of the loan is, in fact, in the hands of the private investor. In the event, however, he has fared better than was to be expected. The high price still maintained for the stock suggests that the authorities continue to buy in the market, with the result that the holder has the opportunity of selling at a figure which saves him the greater part of the income tax payable on the final half-yearly dividend. The authorities are adopting expensive methods of ensuring that the operation shall go off without disturbance, but there will be no complaints from the tardy private seller.

C. C. Wakefield Shares

An interesting illustration of the Treasury's anxiety to avoid any supposed competition with its "tap" loans is to be found in the case of C. C. Wakefield and Co. Following the death of Lord Wakefield, this prosperous lubricating oil business was converted into a public company, and it was hoped to introduce the shares into the Stock Exchange. All that is officially known about the outcome is contained in a statement from the company to the effect that no application for permission to deal has been made to the Capital Issues Committee. It is, however, believed that the Treasury had previously made its attitude known, and had intimated that it would not look with favour on dealings of any sort. This attitude, besides preventing ordinary dealings on the Stock Exchange, also had the effect of removing the possibility of a quieter method of "grey" market placing. At one time, the idea was to obtain sanction for specific bargains under Appendix 34D of the Stock Exchange rules, which covers business in securities "of a purely local nature". This procedure would have been unsatisfactory from all points of view. By avoiding the publicity of ordinary dealings, it would have debarred the general public from participating in an attractive issue. It would have laid the Treasury open to the charge of inconsistency, for if issues of this sort are competitive with Government loans at all, they are equally so whatever way they are marketed. Finally, it would have been incompatible with the Stock Exchange's tradition of service to the investor to have lent its facilities to operations of this nature. In this connection, however, it should be recorded that the Stock Exchange Committee might not have been in favour of dealings under Appendix 34D, even if the higher authorities had given their sanction. In the circumstances, it is probably better that there should be no dealings at all than that Wakefield shares should have

to join the various other issues which have been relegated to the "grey" market through no fault of their own. There have been other cases of a similar character, but this incident becomes all the more conspicuous because of the size and importance of the issue involved.

The basic fact, which the Treasury still fails to recognise, is that where shares are already in existence, a mere transfer of ownership cannot reduce the funds which must ultimately find their way into Government loans.

Points from Published Accounts

Importance of Comparative Figures

We have often insisted in these notes that, where a substantial change is made in the method of striking profits, adjusted comparative figures ought to be given for the previous year. The point has a particular importance now that so many companies are recasting their accounts in accordance—in partial accordance would generally be an apter phrase—with recommendation. In some instances it is possible to obtain truly comparative figures by taking the results of the earlier year and re-working them on the new basis. But this demands a knowledge, and a filing system, which the investor usually does not possess; and in any case it is difficult to see why the labour and difficulty involved in extracting the desired information should not be saved to shareholders. To be fair, there has, in the present phase of bringing about an improvement in accounting practice, been a satisfactory tendency to insert comparative figures where these were not given before and to adjust the figures where it had already been the custom to include parallel columns setting out the previous year's results. What confusion may be caused by not adopting these simple precautions is indicated by the latest accounts of Liebig's Extract of Meat. The chief alteration made here is that the specific tax reserve has been enlarged to take care of all taxation that may be expected to accrue from operations up to the date of the balance sheet. The conflicting reception which various organs of the Press gave to the accounts was partly due to the fact that the chairman's statement, which illustrated the general effect of the change, was endorsed "No comment on chairman's statement to appear until after the meeting." But the fact remains that, because of the omission of comparative figures and the failure to indicate how the tax provision was made up, it is quite impossible, even with the chairman's guidance, to arrive at a precise figure of profits for the past period.

John Crossley & Sons

Not only has John Crossley & Sons switched over from the method of showing dividend payments at their gross amount to that of showing them at their net amount. The company now discloses its trading profit before deducting any taxation, whereas previously this profit was determined after providing for income tax. In making the change the directors have furnished adjusted comparative figures for 1941-42. Although it is much more satisfactory than the old, the new arrangement would have been even better had war damage contributions of an unstated amount not been included with E.P.T. and income tax. The £65,300 amount of the omnibus charge for tax and war damage contributions is reduced by deducting £22,787 over-provided in recent years. A hurried glance at the accounts might suggest that the net figure of £42,513 was a full measure of the period's tax liability, and it would have been better to have shown the provision gross and to have brought in the amount written back as a separate item of special revenue, not as an offset to charges against the year's income.

Jute Industries

The trading profit of Jute Industries is shown by the accounts for the year to September 30 last to have risen from £92,971 to £105,250. In addition the latest accounts benefit from the fact that there is no such debit as the £11,947 provided a year ago for war damage contributions. Yet the final result is a net profit of only £31,803, as compared with £32,520. The explanation is that "provision for deferred repairs" is a new debit of £25,000. The chairman's statement says that "£25,000 has been added to the provision made last year to cover deferred repairs. The total amount for this purpose is now £50,000." As we have implied, no such provision was shown in the profit and loss statement for 1941-42. But the chairman intimated a year ago that "under the heading of 'liabilities' in the balance sheet, a sum has been included to cover deferred repairs." He did not say, however, where this sum came from. If it was provided from revenue before striking the trading profit then the comparison of profits now obtained by laying the two sets of accounts side by side is faulty. It may have represented merely the earmarking of inner reserves already existing. In either case a specific provision of this nature ought to be entered separately in the balance sheet; there can be no conceivable objection to this course where the existence and the amount of the provision are openly acknowledged in the chairman's commentary. Nevertheless the narrative describing "sundry creditors, accrued charges, taxation and other provisions" does not even note that a deferred repairs provision is included. These items, incidentally, are included under the sub-heading "liabilities." If only as a means of avoiding confusion with precisely the same description applied to the general heading which covers the whole of the left-hand side of the balance sheet, the more precise definition "current liabilities and provisions" has obvious advantages.

PUBLICATION

Builders' Accounts. By John A. Walbank & Co., Chartered Accountants. Sixth Edition. (Gee & Co. (Publishers), Ltd., London. Price 12s. 6d. net.)

This book describes in detail a system of keeping the accounts of builders, the basis of which is the allocation of all materials, wages and expenses to the individual contracts. It is also recommended that a separate machinery and plant journal and ledger shall be kept, the ledger being divided into two parts, the first section containing accounts under which the various items are classified by their nature and the second section containing accounts for each contract in which the plant in use on each is shown.

There is also an appendix describing a modification of this system suitable for smaller firms.

In practice, the successful operation of such a system depends largely upon the efficiency of the storekeeping staff; special difficulties arise in relation to the revaluation of timber and other stores returned from contracts. It is interesting to find continued references in the latest edition to bills payable.

LAW

Legal Notes

EXECUTORSHIP LAW AND TRUSTS

Administration by the Court—Order for general Administration—Representatives can only exercise powers with court's sanction.

There has been some conflict of authority as to the powers of a personal representative after an order for general administration. The judgment of Morton, J. in *Re Viscount Furness deceased* (1944, 1 All E.R., 66) confirms the general view that the personal representative cannot deal with the assets without the sanction of the court. Viscount Furness, the testator, died on October 6, 1940, and his will dated February 3, 1936, was proved on December 18, 1940. His eldest son, Christopher, was an officer in the Welsh Guards and was last heard of on May 24, 1940, when in action near Arras. On April 7, 1941, leave was granted by the High Court to swear the death of Christopher on or since May 24, 1940. No evidence was available of any person who saw him killed, but nothing had been heard of him since that battle. The sole executor and trustee of the will of Viscount Furness obtained an order for the general administration of the Viscount's estate. The order directed certain accounts and enquiries to be made and concluded by ordering that the testator's property not specifically devised or bequeathed should be applied in payment of his funeral and testamentary expenses and afterwards in payment of the legacies and annuities given by his will in due course of administration, but that none of the stated accounts and enquiries, with the exception of the one as to the testator's debts, was to be prosecuted in chambers except with leave of the judge. The plaintiff took out a summons asking for directions (1) whether he was at liberty to dispose of and deal with the assets of the testator's estate in due course of administration without first obtaining the sanction of the court, and, (2) if he had no such powers, that he should be given such general powers. It was contended that the later part of the order for general administration enabled him, when the court was only proceeding with the enquiry as to the deceased's debts, to deal with and dispose of the estate in due course of administration, as otherwise there would be a deadlock. Morton, J., held: (1) the order was for general administration, although only one account was to be proceeded with in the meantime; (2) when the court has made an order for the general administration of an estate, the powers of the deceased's representatives may not be exercised without the leave of the court, which will be granted in appropriate cases.

Contemporaneous deaths—Statutory presumption inapplicable—Five persons killed in same house by bomb.

By Section 184 of the Law of Property Act, 1925, in all cases where two or more persons have died in circumstances rendering it uncertain which survived the other or others, such death shall for all purposes affecting the title to property be presumed to have occurred in order of seniority, and accordingly the younger shall be deemed to have survived the elder. In *Re Lindop* (1942, 1 Ch. 377, reported in ACCOUNTANCY, August, 1942, page 198), Bennett, J., held in the case of a husband and wife killed simultaneously in an air-raid, that as there was no proof that they died at the same moment, the statutory presumption prevailed, so that the wife, being the younger, must be presumed to have survived the husband. But in *Re Grosvenor* (1944, 1 All E.R. 81), when the facts were similar to those in *Re Lindop*, the Court of Appeal (Luxmore, L.J., dissenting) overruling Cohen, J., held that on the facts the proper inference to draw

was that all the persons concerned died simultaneously; therefore the presumption afforded by statute, of the survival of the youngest, did not arise. On September 14, 1940, a bomb fell on a house in Chelsea and exploded in the basement. The five people sheltering there were all killed. They were (a) the occupier, (b) her daughter, (c) the housekeeper of two brothers, the two testators next referred to, (d) R. L. G., aged 73, the first testator, and (e) his brother, E.M.G., aged 66, the second testator. The first testator, *inter alia*, left a legacy to the housekeeper, and left the residue equally among his brothers "surviving at the date of my decease." The second testator left £100 to each of his executors of whom the first testator was one, pecuniary legacies to the first testator, to the occupier of the house and to the housekeeper, and the residue equally to three named legatees, of whom the first testator was one. The appellant, the only surviving brother of the two testators, claimed as one of the residuary legatees under the will of the first testator and as next of kin of the second testator. He claimed that on the true construction of Section 184 of the Law of Property Act, 1925, and in the events which had happened, all the dispositions of the wills of the two testators in favour of one another and of the occupier of the house and the housekeeper had failed. His contention was upheld by the Court of Appeal, on the ground that the presumption in the section did not apply in the case of simultaneous deaths and that in this case the deaths were simultaneous.

Administrator—Relation back—Writ issued before grant of letters of administration—Writ not properly constituted.

Whereas an executor's title is derived from the will, an administrator derives his title solely from the grant. For the purposes of administration it is necessary that his title to the deceased's property shall relate back to the date of death. But in *Ingall v. Moran* (1944, 1 All E.R. 97), the Court of Appeal held that the doctrine does not enable a person subsequently appointed administrator to bring an action before he has obtained a grant. An action was brought by the respondent as administrator of his deceased son's estate for damages recoverable under the Law Reform (Miscellaneous Provisions) Act, 1934, for loss of expectation of life owing to an accident due to negligence. The respondent's son died intestate. The writ, in which the respondent was described as an administrator, was issued on September 17, 1942, although letters of administration were not granted to the respondent until November 13, 1942, and the action was heard on April 20, 1943. The appellant contended that the action was not properly constituted at any time because the writ was issued when the respondent was not an administrator. The respondent contended that by reason of the doctrine of relation back, an action commenced by him as administrator before the grant of letters of administration was properly constituted provided that letters of administration were granted to him before the hearing of the action. The Court of Appeal held that: (1) an administrator as such has no cause of action vested in him before he obtains letters of administration; (2) the doctrine of relation back of an administrator's title to his intestate's property to the date of the intestate's death when the grant of letters of administration has been obtained, has no application to an action commenced by the administrator as such before the grant is made; (3) the respondent has no cause of action vested in him at the date of the issue of the writ, and the action failed and ought to be dismissed.

Society of Incorporated Accountants

COUNCIL MEETING

THURSDAY, JANUARY 27, 1944

Present: Mr. Richard A. Witty (President) in the Chair, Mr. Fred Woolley (Vice-President), Mr. F. J. Alban, Mr. A. Stuart Allen, Mr. R. Wilson Bartlett, Mr. R. M. Branson, Mr. J. Paterson Brodie, Mr. W. Norman Bubb, Mr. W. Allison Davies, Mr. E. Cassleton Elliott, Mr. Alex. Hannah, Mr. Walter Holman, Sir Thomas Keens, Mr. Henry Morgan, Mr. Bertram Nelson, Mr. James Paterson, Mr. R. E. Starkie, Mr. Joseph Stephenson, Mr. Percy Toothill, Mr. Joseph Turner, and Mr. A. A. Garrett (Secretary).

THE LATE LADY MARTIN

The President advised the Council of the regretted death of Lady Martin, widow of Sir James Martin, who was President of the Society in 1922-23 and in 1935, and Secretary from 1886 to 1919. The Council adopted in silence a resolution of condolence with the daughters of Lady Martin.

BRANCHES AND DISTRICT SOCIETIES

It was decided to hold a conference of representatives of Branches and District Societies with members of the Council in May, 1944, immediately following the annual general meeting of the Society.

ANNUAL GENERAL MEETING

It was resolved that the annual general meeting of the Society and the annual general meeting of the Incorporated Accountants' Benevolent Fund be held in the afternoon of Thursday, May 18, 1944, at Incorporated Accountants' Hall.

COMPANY LAW AMENDMENT COMMITTEE APPOINTED BY THE BOARD OF TRADE

It was reported that the Committee of the Council appointed to prepare evidence on company law amendment had completed the memorandum of evidence, which would shortly be forwarded to the Board of Trade.

RESIGNATIONS

The following resignations of membership were accepted with regret from December 31, 1943:—

Barber, R. H. (Associate), Caldy, Wirral.
James, H. I. W. (Associate), Wallington.
Oswald, C. P., Col., C.M.G., O.B.E. (Associate), Henley-on-Thames.

DEATHS

The Secretary reported the death of each of the following members:—

Archer, Stanley (Associate), Newcastle-on-Tyne.
Baillieu, Arthur Sydney (Fellow), Melbourne, Australia.
Bambrough, John (Associate), Sunderland.
Barclay, Archibald Gould Graham (Fellow), Coatbridge.
Broadbent, Newton (Fellow), Burnley.
Brown, Thomas Henry (Associate), Middlesbrough.
Brown, William Edmund (Associate), London.
Fish, Tom Millward (Associate), Ashton-under-Lyne.
Galloway, Robert Alfred (Associate), London.
Green, Frederick William (Associate), Sheffield.
Hedderley, George William (Associate), Newcastle-on-Tyne.
Inge, Eric Royston (Associate), Folkestone.
Jakeman, Cyril Arthur, M.C., J.P. (Associate), Abingdon.
Kershaw, Stanley (Associate), Manchester.
Langley, Henry (Fellow), West Byfleet, Surrey.
McDonald, Thomas William (Fellow), London.
McGibbon, Sinclair James (Fellow), Perth, W. Australia.
Mair, Alfred James (Fellow), Sunderland.
Page, Arthur Emmanuel (Fellow), Johannesburg.
Phillips, Ivor Cenydd (Associate), Mountain Ash.
Sigwart, George Vincent (Associate), Harrow, Middlesex.
Sumner, Thomas (Associate), Birkenhead.
Tongue, George William (Fellow), Loughton, Essex.
Walker, George Henry (Fellow), Halifax.
Wight, Edward Hall (Fellow), Glasgow.

NATIONAL FARMERS' UNION

A report was made of the desire of the N.F.U. to seek the co-operation of practising accountants who have farmers as clients to furnish, with the permission of their clients, economic information desired by the N.F.U. The Council approved

that a suitable note be published in ACCOUNTANCY for the information of Incorporated Accountants.

REINSTATEMENT IN CIVIL EMPLOYMENT BILL

A copy of this Bill was laid before the Council, and its main provisions were noted.

RESULTS OF EXAMINATIONS

DECEMBER, 1943

Passed in Final

Alphabetical Order

ASHLEY, LEONARD ARTHUR, formerly Clerk to Sunley, Sons, & Co., London.
ATTIWEILL, MARY WINIFRED, Clerk to A. F. Dawes (Attiweill & Co.), Birmingham.
BARNARD, ARTHUR JAMES, B.A., Deputy Treasurer, Urban District Council, Wellingborough.
COONEY, JOSEPH LAURENCE, Clerk to Gerald J. Moore, Dublin.
COWLEY, RAYMOND JOHN, City Treasurer's Department, Salford.
EYLES, JOHN HENRY, Borough Treasurer's Department, Wembley.
FORESTER, THOMAS GEOFFREY, formerly Clerk to Layton-Bennett & Co., London.
GOLDMAN, HYMAN JACOB, Clerk to Mitchell & Smith, Glasgow.
HENISCH, KARL, Clerk to Cape & Dalgleish, London.
HEWITT, NORMAN, Treasurer, Urban District Council, Willenhall.
HILL, DONALD JAMES, formerly Clerk to Mellors, Basden & Co., London. (Serving with H.M. Forces.)
HUNT, PEGGY ILENE, Clerk to S. G. Dowden (Edward Bicker & Son), Bournemouth.
ISACKE, JEFFERY WYATT, Clerk to E. Bramwell, Birmingham.
McCAY, HENRY, Clerk to J. Howard Wilson & Co., London-derry.
PHILLIPS, GEORGE STEPHEN, formerly clerk to Lomax, Clements & Co., London. (Serving with H.M. Forces.)
SHEIL, JAMES HENRY, Clerk to Stritch and Smyth, Dublin.
SHIACH, GORDON, Clerk to Duthie, Thompson & Co., Carlisle.
SUTHERLAND, WILLIAM ALLAN, Clerk to F. N. Clarke (Hilton, Sharp & Clarke), Brighton.
THOMPSON, KENNETH CLAUDE, Borough Treasurer's Department, Stockport.
WALTON, THOMAS, Clerk to J. E. N. Brough, Ripon. (Serving with H.M. Forces.)
WILKINSON, CYRIL JOHN FREEMAN, Clerk to Deloitte, Plender, Griffiths & Co., London.
WOOD, WILLIAM, Clerk to Forrester, Boyd & Co., Scunthorpe.
WORTHINGTON, JOHN FREDERICK, Borough Treasurer's Department, Southport.
WRIGHTSON, LARARD SNOWDEN, Clerk to Hodgson, Harris & Co., Hull.

SUMMARY:

24 Candidates Passed.
22 Candidates Failed.
—
46 Total.

Passed in Intermediate

Order of Merit

WATERFALL, RONALD FREDERICK, Borough Treasurer's Department, Barking. (First Place Certificate.)

Alphabetical Order

ALCOCK, DENNIS WALTER, formerly Clerk to Edward Moore & Sons, London. (Serving with H.M. Forces.)
ASHTON, CEDRIC HERBERT, Clerk to P. A. H. Bromwich, Leicester.

BATKIN, RICHARD MICHAEL, Clerk to Reginald Attiwell (Attiwell & Co.), Birmingham.
 BIGGER, FREDERICK GEORGE NOEL, Clerk to F. Dall Gray (Lawther, Bass & Gray), Coleraine.
 BRADFELD, WILLIAM GILBERT, Clerk to C. A. Jakeman (Critchley & Co.), Abingdon.
 BRASSINGTON, THOMAS GORDON, Clerk to Jas. A. Hulme (Jas. A. Hulme & Co.), Manchester.
 CHAPMAN, LEONARD, Clerk to Wade Hustwick (Wade Hustwick & Sons), Bradford.
 DEIGHTON, JOHN, Clerk to Victor Walton & Co., Leeds.
 DENT, ARTHUR, Borough Treasurer's Department, Stockport.
 DODD, KENNETH STANLEY, Clerk to Blease & Sons, Liverpool.
 DUXBURY, ALAN HOLT, Assistant Borough Accountant, Barnstaple.
 FOX, ALBERT HENRY, Clerk to Chas. W. Rooke, Lane & Co., London.
 GILLINGHAM, WESLEY JOHN, City Treasurer, Chichester.
 HALL, JOHN, Deputy Borough Treasurer, Heywood, Lancs.
 HAMILTON, THOMAS JAMES, Clerk to J. S. McNutt (McNutt & McLarnon), Sligo.
 HARRIS, MICHAEL, Clerk to Percy Phillips & Co., London.
 HARRISON, JACOB FRANK, Clerk to Watson & Tebbet, Leicester.
 HAYTHORNTHWAITE, WILLIAM ARTHUR, City Treasurer's Department, Plymouth.
 HODSON, ALAN NELSON, Borough Treasurer's Department, Bury. (Serving with H.M. Forces.)
 IRVING, RICHARD STAVERT, Clerk to W. G. Lithgow & Co., Southport.
 JONES, JOHN LLYWELYN, B.A., H.M. Inspector of Taxes, Llandudno.
 KEYTE, EDWARD HENRY, City Treasurer's Department, Plymouth.
 LAKE, LESLIE RICHARD, formerly Clerk to Toy, Campbell & Co., London. (Serving with H.M. Forces.)
 LEWIS, DENIS HAROLD ANTHONY, Clerk to G. J. Simmons (W. Vincent, Vale & Co.), Wolverhampton.
 MACDONALD, COLVILLE LISTER, Clerk to Howden & Molleson, Edinburgh.
 MAWDSLEY, JAMES HERBERT, Horace Rhodes & Company, Halifax. (Practising Accountant.)
 METCALF, KENNETH LABRON, Clerk to T. Schofield Smith (Horsfield & Smith), Bury.
 PEARSON, NORMAN HENRY, Clerk to Bolton, Pitt & Breden, London.
 PYALL, PETER DOUGLAS, Clerk to S. Woodyer (Blease & Sons), London.
 RUSSELL, JOHN RANSON, Clerk to S. A. Martin, Dublin.
 SMART, NORMAN STANLEY, Clerk to J. Durie Kerr, Watson & Co., Birmingham.
 STARKEY, MAIRE FRANCES, Clerk to Mervyn Bell (J. A. Kinnear & Co.), Dublin.
 WEBB, JAMES, Clerk to Fred Thornley, Ashton-under-Lyne.
 WHITAKER, HARRY, Clerk to Armitage and Norton, Bradford.

SUMMARY :

1 Candidate awarded Honours.
 34 Candidates Passed.
 83 Candidates Failed.
 118 Total.

Passed in Preliminary

Order of Merit

MAIDMENT, VICTOR FRANK, 18, Selcroft Road, Greenwich, London, S.E.10. (First Place Certificate.)

Alphabetical Order

AINSWORTH, LESLIE NORMAN, 77, Whitfield Avenue, Newcastle, Staffs.
 AITKEN, ROBERT BRUNTON, 27, Ellesmere Road, Weybridge, Surrey.
 ALDOUS, GEOFFREY, 72, Parsonage Road, Withington, Manchester.

ANDREWS, ALFRED GEORGE, 20, Devonshire Road, Leytonstone, London, E.11.
 BISH, DERRICK LESLIE, 42, Churchill Avenue, York Road, Doncaster.
 BLACKMAN, CYRIL ISAAC, 102, Evering Road, London, N.16.
 BROWN, JOHN AUCKLAND, 34, Fairfield Avenue, Linthorpe, Middlesbrough.
 CLEGG, VERNON, 15, Albion Terrace, Blackley, Elland, Yorks.
 COCKMAN, DERRICK HARRY, 44, Roydon Road, Stanstead Abbots, Nr. Ware, Herts.
 CROWTHER, RONALD, 60, Allenby Road, Leeds.
 CURRAGH, WILLIAM, 20, Northfield, Donaghadee, Co. Down.
 DAVIS, PATRICK DENIS, 7, MacDermott Villas, Navan, Co. Meath.
 GODDEN, DENNIS WILLIAM GEORGE, 4, Challoners Cottages, Rottingdean, Brighton.
 GOLEND, MAURICE, 6, Whitehall Mansions, Elderfield Road, London, E.5.
 GOODWIN, ARTHUR WILLIAM, 345, Oakwood Lane, Leeds.
 GREENLEES, SAMUEL, 42, Leirim Street, Belfast.
 JOHNSON, HARRY, 100, James Street, Radcliffe, Nr. Manchester.
 JOHNSON, NORMAN, 10, Wrigley Crescent, Failsworth, Nr. Manchester.
 KENWRIGHT, JOSEPH ARTHUR, 34, Grosvenor Road, Handsworth, Birmingham.
 LIGHTOWLER, FRANK, 30, Holme Lane, Dudley Hill, Bradford.
 MCGRATH, CATHAL ALOYSIUS, Menlo, 102, Cabra Road, Dublin.
 MALES, MARGARET HETTY WINIFRED, 283, Oldham Road, Grotton, Nr. Oldham.
 MERRICK, JOHN, 156, Berkeley Road East, South Yardley, Birmingham.
 MITCHELSON, GEORGE ERNEST, 30, Blackrock Street, Bradford, Manchester.
 MONROE, JAMES TUFT, 106, Ulsterville Avenue, Lisburn Road, Belfast.
 NEILL, JOHN FRANCIS GOODLAND, 9a, Bridge Street, Waterford.
 PARKES, JOHN WILLIAM, 5, Madison Avenue, Ward-End, Birmingham.
 PIPER, HARRY NORMAN, 36, Walwyn Avenue, Bromley, Kent.
 REASON, WILLIAM MATTHEW, 1, Lindsay Avenue, Northampton.
 SIMPSON, JAMES JOHN, 21, Fairmead Crescent, Edgware.
 SINGLETON, JOHN HUDSON, 259, New Hall Lane, Preston.
 SOUTHAM, KENNETH HUBERT, 35, Ellesboro Road, Harborne, Birmingham.
 TUSTIN, JAMES FREDERICK WILLIAM THOMAS, Bellevue, 1, Hermitage Road, Solihull, Birmingham.
 WILDE, PETER GEOFFREY, Aberdale, South Road, Newton Abbot.
 WILDER, PHILIP HAROLD, 38, Lynwood Road, Ealing, London, W.5.

SUMMARY :—

1 Candidate awarded Honours.
 35 Candidates passed.
 36 Candidates failed.
 72 Total.

EXAMINATIONS IN PRISONER OF WAR CAMPS, JULY, 1943

The following have passed the Intermediate Examination. The list is incomplete, as some candidates' scripts have not yet been received :—

DONALD, GORDON ALEXANDER, formerly Clerk to S. H. Wilson & Co., London.
 HUNKIN, FRANK, formerly Clerk to Ware, Ward and Co., Exeter.
 ROBINSON, STANLEY HENRY, formerly Clerk to Brown, Peet & Tilly, London.

DISTRICT SOCIETIES AND BRANCHES

SCOTTISH BRANCH

A meeting of the Council of the Scottish Branch was held in Glasgow on February 11. Mr. Robert T. Dunlop presided.

The Secretary, Mr. James Paterson, reported the results of the December Examinations and an increase in the number of applications from suitable candidates for exemption from the Preliminary Examination. The annual meeting of the Branch was provisionally fixed for March 24.

LONDON

Mr. W. J. Lofthouse, H.M. Inspector of Taxes, will give an address on "Pay as You Earn" at a meeting to be held at Incorporated Accountants' Hall on Wednesday, March 15, at 5 p.m.

MANCHESTER

An address on "Pay as You Earn" was given by Mr. H. M. MacTaggart, Inspector of Taxes, assisted by two of his colleagues, at a meeting of over 130 Manchester Incorporated Accountants and students on January 28. Mr. Alfred Southern, F.S.A.A., was in the chair.

A discussion meeting on Excess Profits Tax was held on February 25.

A further meeting will be held on March 24 at 5.45 p.m. in the Grand Hotel, Aytoun Street, Manchester. A lecture will be given by Mr. F. A. Pittock, A.S.A.A., on "Costing in relation to Financial Accounts."

SHEFFIELD

Annual Report, 1942-43

The work of the Society has been continued, but the war has curtailed its activities. Early in 1943, it was decided to hold lunch-time meetings, and one was held on March 15, 1943, when Mr. F. Marshall, M.P., spoke on "Town and Country Planning." Further meetings were arranged.

One student was successful in the Final Examination in 1942, and the Committee congratulate him.

During the year a number of members and students have joined H.M. Forces, and the Committee wish them a safe and speedy return.

BOMBAY

The fourteenth annual meeting of the Bombay District Society was held on October 16, 1943. The following were elected members of the Committee for 1943-44:—Mr. R. K. Dalal, Mr. N. J. Shah, Mr. S. S. Engineer, Mr. F. R. Merchant, Mr. N. J. Dastur, Mr. R. P. Dalal, Mr. P. C. Hansotia, Mr. B. E. Kumana, Mr. R. C. Jallundwalla, Mr. M. D. Dubash, Mr. N. R. Mandviwalla, Mr. D. H. Kabraji.

Mr. A. K. S. Aiyar was elected Honorary Librarian; Mr. R. K. Dalal, Honorary Secretary of the Study Circle; and Mr. B. S. Billimoria, Honorary Auditor.

At a Committee meeting held on the same day, Mr. R. K. Dalal was re-elected President, Mr. N. J. Shah Vice-President, and Mr. D. H. Kabraji Honorary Secretary and Treasurer.

LONDON STUDENTS' SOCIETY

The Committee has arranged to hold the following meetings at Incorporated Accountants' Hall during the Spring Session. Members of the London District Society are also invited.

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| February 29,
at 4.30 p.m. | "Principles of Investigations," by Mr. D. Mahony, F.S.A.A. (Vice-President). Chairman: Mr. A. V. Hussey, A.S.A.A. |
| March 28,
at 4.30 p.m. | "Traditions in Professional Life," by Mr. Linton Thorp, K.C. Chairman: Mr. W. J. Back, F.S.A.A. |
| April 25,
at 6 p.m. | "Financing in War and Peace," by Mr. F. Whitmore (City Editor of the <i>Daily Telegraph</i>). Chairman: Mr. Fred Woolley, J.P. (Vice-President of the Society of Incorporated Accountants). |
| May 9,
at 6 p.m. | "The Human Side of the Ministry of Pensions," by the Right Hon. Sir Walter Womersley, J.P., M.P., Minister of Pensions. Chairman: Mr. Richard A. Witty (President of the Society of Incorporated Accountants). |

PERSONAL NOTES

Messrs. James Baird & Co., Incorporated Accountants, Belfast, Coleraine, Ballymena and Cookstown, intimate that they have admitted Mr. John W. Baird, A.S.A.A., into partnership.

The offices of Messrs. W. A. Rayner & Co. have been moved from Colindale to No. 1, Laurence Pountney Hill, Cannon Street, London, E.C.4, where they will be associated with Messrs. Stanley F. Stephens & Co., Incorporated Accountants. Mr. H. Ramsay Brown has retired from the partnership. The practice will be continued by Mr. R. F. C. Baker, A.S.A.A., who will have the assistance of Mr. Leonard H. F. Pinhorn, F.S.A.A., and Mr. S. Gordon Stephens, A.S.A.A.

Mr. Thomas Rodger, F.S.A.A., of 21, Ellison Place, Newcastle-upon-Tyne, 1, announces that he has taken into partnership Mr. Wm. W. Atkinson, A.S.A.A., who has been with him for a number of years. The name of the firm will remain as before.

Messrs. Charles, Rickard, Pickstone & Co., 63, Coleman Street, London, have opened offices at 17, East Street and Lyme Street, Axminster, Devon.

REMOVALS

Messrs. Moore, Stephens & Co. announce that they have removed to new offices at 30, Cornhill, London, E.C.

Messrs. B. Nagley & Co., Incorporated Accountants, have removed their offices to 24, Sir Thomas Street, Liverpool.

Mr. A. C. Nash, Incorporated Accountant, has changed his address to 167, Victoria Street, Westminster, London, S.W.1.

OBITUARY

LADY MARTIN

News of the death of Lady Martin on January 25 will be received with deep regret among the large number of friends of Sir James and Lady Martin in the Society. Lady Martin was in her eighty-first year, and had had a long and happy life. She had an abiding interest in the Society and gave unstinting support to Sir James during the fifty years when he was successively Secretary and Adviser to the Council. At Conferences of Incorporated Accountants in different parts of the country Lady Martin was an ever-welcome figure and members who were present at the Fiftieth Anniversary Celebrations, held in London in 1935, when Sir James was President, will recall the happy and graceful part which she took in the proceedings. In 1919, when Sir James retired from the Secretaryship of the Society, he and Lady Martin were presented by the members with a portrait of Sir James by Mr. Solomon Solomon, R.A. Lady Martin on that occasion made a felicitous speech in which she expressed her affection for the Society and her deep appreciation of the goodwill shown to Sir James and to her by Incorporated Accountants all over the world. During his secretaryship and subsequently Sir James made visits on behalf of the Society to South Africa, Canada and the United States and he frequently referred to the great help which he had received from his wife during his travels.

Lady Martin survived Sir James by eight years. Although his death caused a great gap in her life, she maintained her vivacity and joy in life, being surrounded by many friends, and supported by the affection of her two daughters, to whom we extend our sympathy.

At the funeral, Mr. Walter Holman, Past President, and Mr. A. A. Garrett, Secretary, represented the President—who was unavoidably absent—and the Council of the Society. Messrs. Martin, Farlow & Co. were represented by Mr. W. G. Strachan, F.S.A.A.

GEORGE WILLIAM TONGUE

We record with regret that Mr. G. W. Tongue, F.S.A.A., died suddenly on December 20, at the age of 64. Mr. Tongue was Borough Treasurer of Leyton from 1933 until his retirement in 1939. He first became a clerk in the Leyton Surveyor's Department in 1898, but shortly afterwards transferred to the Treasurer's Department, and qualified as an Incorporated Accountant in 1911. He was also a member of the Institute of Municipal Treasurers and Accountants. Chess and flute playing were among Mr. Tongue's recreational interests. He was a keen Freemason, and was formerly Secretary of St. Mary's Chapter. The funeral took place at Loughton Cemetery on December 23.